96-183

COST TO CONSUMERS OF DEREGULATION OF CRUDE OIL

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

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COST TO CONSUMERS OF DEREGULATION OF CRUDE OIL

WEDNESDAY, JULY 30, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2322, Rayburn House Office Building, Hon. Bob Eckhardt (chairman) presiding.

Mr. ECKHARDT. The Subcommittee on Oversight and Investigations will commence its hearing.

This morning we will hear testimony from the Department of Energy Secretary Charles Duncan. At the subcommittee's request, the DOE has recalculated the expected cost to the consumer of the President's plan to decontrol domestic crude oil in stages between June 1979 and October 1, 1981.

The revised calculations, which will be placed into the record today, indicate that DOE has raised its estimate from $16 billion to $47.4 billion, an increase of over $31 billion from a year ago. The subcommittee staff's calculation projects an even greater total cost, $53.4 billion. [See exhibit 1, p. 4.]

This look at decontrol is not a historical exercise. It is a question of energy policy and of public policy. Simply put, this hearing will attempt to answer the question: "What are we getting from accelerated decontrol?"

In his April 5, 1979, speech announcing his decision to decontrol domestic crude oil, the President stated:

> In order to minimize the sudden economic shock, I have decided that phased decontrol of oil prices will begin on June 1st and continue at a fairly uniform rate over the next 28 months.

He added that:

> Phased decontrol will gradually increase the price of petroleum products. In the short run it will add a small amount to our rate of inflation. . . .

The inflationary impact was estimated by then DOE Secretary Schlesinger to be about three-tenths of a percentage point per year on the Consumer Price Index. But these sanguine assessments were counter to supply and price trends at the time. Production in Iran had fallen from 5 million barrels per day to no more than a trickle and the OPEC price was moving up rapidly.

For example, in December 1978 the Saudis announced a phased increase that contemplated a rise in the price of their benchmark crude from $12.70 to $14.54 by October of 1979. However, this level was reached—and surcharges pushed the average world price

above $16—before the decontrol plan was announced in April 1979. The skyrocketing OPEC price produced a tidal wave of inflation which literally swamped the administration's inflation forecast.

In 1979, the inflation rate increased from 9 percent to 13.3 percent and energy accounted for virtually all of the rise. The direct energy contribution to the increase in the Consumer Price Index exceeded 3 percentage points in 1979, and the indirect energy contribution added two more points to the 13.3 percent rate. In the first quarter of 1980, the direct energy contribution to inflation rose to an annualized rate of 6.6 percentage points and the indirect contribution increased to 3.9 percentage points on the CPI.

While the rate of inflation has slowed somewhat in the second quarter, the price of OPEC oil has continued its rise and the economy is still being battered by the direct and especially the indirect effects of the over 145 percent increase in the world price of oil since December 31, 1978.

In the face of this energy-driven inflation, decontrolling domestic crude oil in advance of the September 30, 1981 expiration of controls under the Energy Policy and Conservation Act is rather like bleeding the patient to cure the anemia.

One of the leading reasons cited by the President and his spokespersons for decontrol was to increase domestic production. In April 1979, the administration estimated that decontrol would result in about 742,000 more barrels per day of domestic production in 1985 than in the so-called "base case," in which controls were continued through 1985.

Like the cost of decontrol, the DOE has updated and revised its estimates of the production gain from decontrol. A study done in June for the Office of Policy and Evaluation now places the estimated 1985 production response at 516,000 barrels per day. Thus, while the estimated cost has increased 190 percent, the estimated production response has declined 30 percent. The subcommittee will shortly examine these changes, which can only be described as astounding.

We will also pursue with Secretary Duncan today the matter I referred to, when we last had a DOE witness before us, as "the case of the billion-dollar stripper." Within our time constraints today, we want to update for the record the progress that DOE has made in its investigation and enforcement activities regarding the problem of stripper miscertification. DOE data for production and refinery receipts of stripper oil indicate that the excess refinery receipts of stripper—which averaged about 200,000 barrels per day in 1979 and gave rise to our estimate that $1 billion in certification violations had occurred during that year—have now risen above 400,000 barrels per day.

There is of course a connection between the stripper miscertification question and the issue of the cost of decontrol. Stripper miscertification—or any conversion of controlled oil to uncontrolled between the wellhead and the refinery—is a hidden form of decontrol. It has a very high cost to consumers which is not included in any of the estimates of the cost of decontrol that we will be examining today. In 1979 it was by our reckoning more than half as much as the legitimate cost of decontrol under the President's program. Hence our interest, which I believe has helped to spur a

commendable effort by DOE, to get to the root of this matter and put a stop to these illegal and costly practices.

At this time, without objection, I would like to insert into the record exhibits 1 through 5, graphs and charts which may be pertinent to the testimony today.

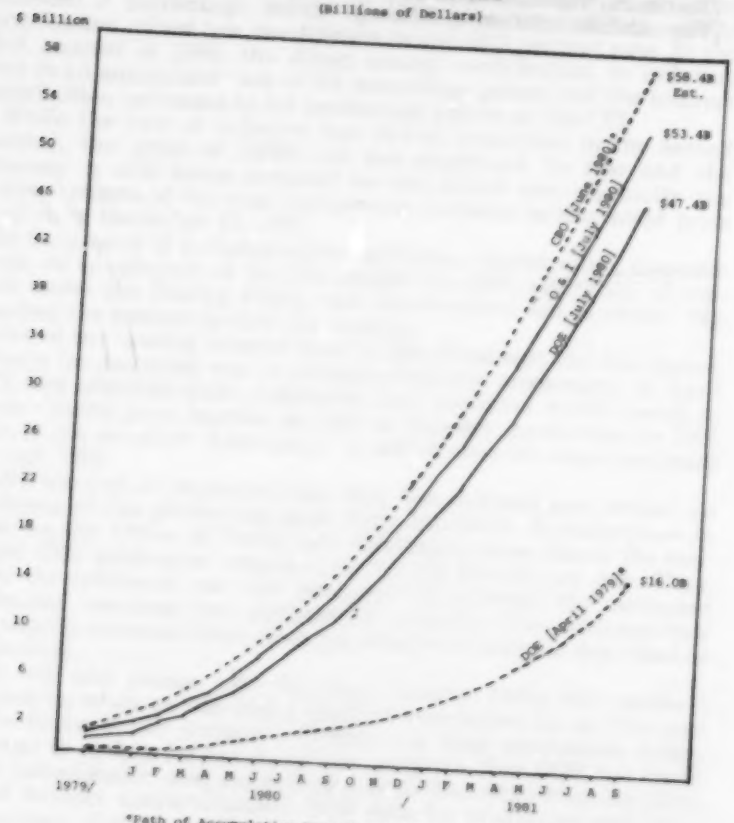
[Testimony resumes on p. 11.]

[The exhibits referred to follow:]

READEX FICHE

EXHIBIT 1

CUMULATIVE COSTS OF ACCELERATED DECONTROL
COMPARED TO CONTINUATION OF EPCA CONTROLS TO EXPIRATION
JUNE 1979 - SEPTEMBER 1981
(Billions of Dollars)



*Path of Accumulating Cost Sketched From Limited Number of Known Points.

INCREMENTAL COSTS OF ACCELERATED DECONTROL
COMPARED TO CONTINUATION OF EPCA CONTROLS TO EXPIRATION
JUNE 1979 - SEPTEMBER 1981
(Billions of Dollars)

ESTIMATE	June-Dec. 1979	1980	Jan.-Sept. 1981	TOTAL 1979-81
Department of Energy [April, 1979] Crude prices rise with inflation (7%)	$1.2	$5.5	$9.3	$16.0
Department of Energy [July, 1980] Crude prices rise with inflation plus 3% (approx. 13%)	$1.3	$17.0	$29.1	$47.4
Subcommittee on Oversight & Investigations [July, Crude pric ith inflatio	$1.8	$19.5	$32.0	$53.4
Congressio et Office [June, 19[illegible], Crude prices rise 12%	$2.0	$21.8	$34.6*	$58.4*

*The CBO estimate is given by calendar year, and the portion of the 1981 cost attributable to the period Jan.-Sept. 1981 has been estimated by O & I staff. Total decontrol costs for 1981 will be $54.9 billion according to CBO, of which $34.6 billion (or 63%) are here estimated to be incurred in the first 9 months of the year.

DECONTROL COST OF EACH DOE RULEMAKING
DOE AND O & I ESTIMATES COMPARED
1979 - 1981

Rulemaking (or other action)	June-Dec. 1979		1980		Jan.-Sept. 1981		1980-1981		Total 1979-81	
	DOE Est.	O & I Est.	DOE Est.	O & I Est.	DOE Est.	O & I Est.	DOE Est.	O & I Est.	DOE Est.	O & I Est.
Marginal Rule & Adjusted Base Production Control Level Amendment	N/A	$ 798.9	$ 2793.8	$ 2865.9	$ 3415.6	$ 3467.8	$ 6209.4	$ 6333.7	N/A	$ 7132.6
Newly Discovered Crude Oil Rule	N/A	$ 727.5	$ 1970.9	$ 4702.1	$ 2616.6	$ 6123.7	$ 4587.5	$10,825.8	N/A	$11,553.3
Heavy Crude Oil Deregulation	N/A	$ 283.3	$ 2556.2	$ 2274.5	$ 1971.0	$ 1885.9	$ 4527.2	$ 4160.4	N/A	$ 4443.7
Incremental Tertiary and Tertiary Incentive Rules	N/A	$ 6.5	$ 376.4	$ 595.9	$ 242.6	$ 848.1	$ 619.0	$ 1444.0	N/A	$ 1450.5
Phased Decontrol of Upper Tier Oil	N/A	$ 0	$ 9344.6	$ 9079.8	$20,812.3	$19,693.4	$30,156.9	$28,773.2	N/A	$28,773.2
Total Incremental Costs of Accelerated Decontrol Plan	$1302.7	$1816.2	$17,041.9	$19,518.2	$29,058.1	$32,018.9	$46,100.0	$51,537.1	$47,402.7	$53,353.3

EXHIBIT 2

ESTIMATES OF DOMESTIC CRUDE
PRODUCTION IN 1985 COMPARING
DECONTROL AND CONTINUED CONTROLS
(barrels per day)

		Estimate in May 1979	Estimate in June 1980
I.	Total Production		
	a. With Controls	8.55 million	7.0
	b. Without Controls	9.30 million	7.5
II.	Increased Production from Decontrol	740,000	516,000
	a. Newly Discovered	540,000	396,000
	b. Incremental Tertiary	200,000	67,000
	c. Heavy Oil	n/a	53,000

NOTE: The price assumption for the May 1979 estimate was $15 per barrel while the lower June 1980 estimate was based on a price assumption of $35 per barrel.

SOURCE: DOE, Assistant Secretary for Policy & Evaluation

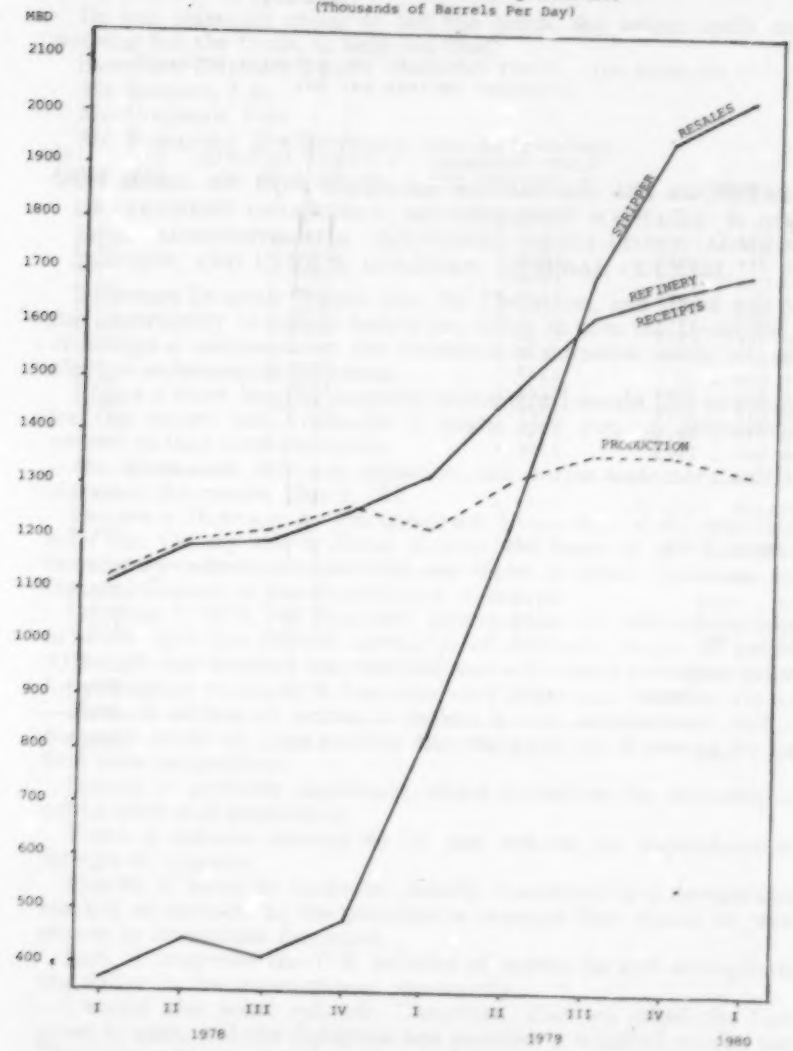
EXHIBIT 3

ESTIMATES OF DOMESTIC
CRUDE OIL PRODUCTION
Includes Natural Gas Liquids
(millions of barrels per day)

	1985	1990
I. U.S. Government		
1. Federal Energy Agency		
a. Project Independence, 1974	15.0	n/a
b. National Energy Outlook, 1976	13.9	n/a
2. Department of Energy		
a. Energy Information Administration		
(1) Annual Report* 1977 (Published April 1978)	10.2	9.8
(2) Annual Report* 1978 (Published June 1979)	10.7	11.2
(3) Annual Report* 1979 (Published July 1980)	9.2	9.6
*NOTE: The annual report for a given year is published the following year		
b. Policy and Evaluation		
(1) NEP II, May 1979	10.9	10.7
(2) Policy & Fiscal Guidance, Feb. 1980	9.5	10.0
(3) Internal Study, July 1980 (Draft)	8.8	8.4
II. Private Industry		
Exxon Corporation, Dec. 1979	7.9	7.1**
Shell Oil Corp., June 1980	8.6	8.8

** (Includes 1,000,000 bbl of synfuels)

STRIPPER OIL: TOTAL SALES BY CRUDE OIL RESELLERS EXHIBIT 4
COMPARED WITH U.S. STRIPPER PRODUCTION AND REFINERY RECEIPTS
FIRST QUARTER 1978 - FIRST QUARTER 1980
(Thousands of Barrels Per Day)



Total sales by resellers as reported to ERA as of July 15, 1980.
These will increase with more complete reporting.

EXHIBIT 5

STRIPPER OIL: FIRST PURCHASES AND REFINERY RECEIPTS
(thousand barrels per day)

DATE	(1) FIRST PURCHASES OF STRIPPER OIL	(2) REFINERY RECEIPTS OF STRIPPER OIL	(1) (2) DIFFERENCE
4th Qtr., 1976	1060.6	1026.7	33.9
1st Qtr., 1977	1040.1	1043.3	-3.2
2nd Qtr., 1977	1099.2	1050.9	48.3
3rd Qtr., 1977	1094.7	1093.2	1.5
4th Qtr., 1977	1119.8	1109.5	10.3
1st Qtr., 1978	1121.3	1106.2	15.1
2nd Qtr., 1978	1191.7	1181.4	10.3
3rd Qtr., 1978	1213.9	1188.6	25.3
4th Qtr., 1978	1253.1	1248.9	4.2
1st Qtr., 1979	1220.2	1315.7	-95.5
2nd Qtr., 1979	1306.9	1473.4	-166.5
3rd Qtr., 1979	1357.2	1614.5	-257.3
4th Qtr., 1979	1356.4	1657.3	-300.9
AVERAGE, 1976-78	1132.9	1116.7	+16.2
AVERAGE, 1979	1310.7	1516.4	-205.8
JAN., 1980	1316.6	1619.1	-302.5
FEB., 1980	1364.4	1768.7	-404.3
MAR., 1980	1292.6	1716.8	-424.2
1st Qtr., 1980	1323.7	1700.1	-376.4
APR., 1980	1328.3[P]	1760.6	-432.3

Mr. ECKHARDT. We have with us this morning the Secretary of the Department of Energy, counsel and Ms. Rollins.

As you know, it is our custom to swear the witnesses. I suppose all of you will be speaking.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Secretary DUNCAN. I do.

Ms. ROLLINS. I do.

Mr. COLEMAN. I do.

Mr. ECKHARDT. Mr. Secretary, you may proceed.

TESTIMONY OF HON. CHARLES W. DUNCAN, JR., SECRETARY, DEPARTMENT OF ENERGY, ACCOMPANIED BY HAZEL R. ROLLINS, ADMINISTRATOR, ECONOMIC REGULATORY ADMINISTRATION, AND LYNN R. COLEMAN, GENERAL COUNSEL

Secretary DUNCAN. Thank you, Mr. Chairman, and thank you for the opportunity to appear before you today to give the Department of Energy's comments on the decontrol of domestic crude oil, and also our enforcement activities.

I have a more lengthy prepared statement I would like to submit for the record but I thought I might give you an abbreviated version of that statement now.

Mr. ECKHARDT. Without objection, the entire statement will be placed in the record. [See p. 15.]

Secretary DUNCAN. As you indicated, I have two of my associates with me. On my left is Hazel Rollins, the head of the Economic Regulatory Administration. On my right is Lynn Coleman, the General Counsel of the Department of Energy.

On June 1, 1979, the President implemented his difficult decision to move into the phased decontrol of domestic crude oil prices. Although this decision has resulted and will result in higher prices for petroleum products, it has some very important benefits.

First, it allows all prices to reflect a true replacement cost of domestic crude oil, thus making alternative forms of energy for the first time competitive.

Second, it provides significant added incentives for domestic oil exploration and production.

Third, it reduces demand for oil, and reduces our dependence on foreign oil imports.

Fourth, it helps to make an orderly transition to a deregulated market as opposed to the precipitous changes that would be occasioned by immediate decontrol.

Last, it improves the U.S. balance of payments and strengthens the dollar in the international community.

I would also point out, Mr. Chairman, that we asked the Congress to pass, and the Congress has enacted, a windfall profits tax. That serves to prevent the industry from realizing excessive profits as a result of excessive OPEC pricing actions.

The decontrol of domestic crude oil prices will affect both the future supply and demand for petroleum in the United States. In the short term, supplies are increased because producers are encouraged by the higher decontrol prices to increase production from marginal wells and also from newly-developed properties.

This short term response is estimated to lead to about 200,000 to 350,000 barrels of oil per day by September of 1981.

A much more significant effect is the increase in exploration. Exploration has risen dramatically. Drilling activity is up about one-third over the first 6 months of 1979, and according to a report I saw recently, as of last Monday there were just under 3,000 rigs active in America, more than have been active in 25 years, and almost 900 more than even 1 year ago.

We have seen activity by seismic crews increase. It is now 31 percent higher in May of 1980 than it was in May of 1979. Seismic activity generally precedes exploration efforts by about 18 to 24 months and drilling precedes the actual production of oil by about the same length of time, so we expect the boom in exploration will begin to increase our domestic production by the end of 1981.

The decontrol of domestic crude oil, which allowed the price of oil to rise to world levels, ended the deception that oil was cheap when it is not cheap, and that it could be easily wasted when it was becoming harder and harder to replace. As a result, demand for petroleum products in the United States has fallen by 7.7 percent, or 1.45 million barrels per day, through July 18 of this year compared to the same period in 1979.

Net imports of crude oil and petroleum products for the year to date were down an average of 1.2 million barrels per day, or 14.8 percent.

For the 4-week period which ended July 18, we saw imports down by 1.9 million barrels per day, or 25.2 percent compared with the 4-week period a year earlier.

Decontrol will help our domestic production of petroleum. It will slow our consumption of petroleum. Because of these two effects, the Department estimates that by 1985 the United States will import at least 1 million barrels per day less than would otherwise have been the case, and I personally hope that that is a conservative number.

The price effects of decontrol of domestic oil depend upon world price levels. Before June 1979, when phased decontrol began, 60 percent of all crude including foreign oil, was uncontrolled crude. That means that an increase of $1 per barrel in the world prices would be an increase of about 60 cents per barrel in overall U.S. crude prices.

By March of 1981 that will move up to about 85 percent; in other words, 85 percent of all crude oil will be uncontrolled; therefore, a $1 per barrel increase would increase the cost to an American refinery by 85 cents per barrel.

With total decontrol by October 1, 1981, the impact of the same $1 increase would be the full $1.

The details of our current best estimate of the future effects of crude oil decontrol on refiner acquisition costs are contained in my written testimony. Based on world oil price increases of between 10 and 15 percent annually we estimate that decontrol will increase the cost of all crude oil to an average U.S. refiner by a little less than 1 cent per gallon per month between now and September of 1981. An increase in crude oil costs leads to an increase in the cost of refinery fuel, so the prices of gasoline and heating oil might be from three-tenths to five-tenths of a cent per gallon per month

higher than a straight passthrough of crude oil price increases would indicate. Roughly speaking, then, we expect crude oil decontrol will raise gasoline and heating oil prices by something close to a penny and a half per month, although the actual effects may be higher or lower, depending on how plentiful supplies are and also how rapidly world crude oil prices rise.

It is important to note that some of the increased prices from decontrol will return to the consumer through the windfall profits tax because up to 70 percent of the difference between the actual prices received and the price estimated under continued controls may be collected under this program and used to assist low-income fuel users and also to encourage various energy projects designed to reduce our dependence on foreign oil.

The subcommittee requested an estimate of the relative contribution of several cost components to the increase in the retail price of gasoline. A table attached to my written testimony gives our best current estimates for full service regular gasoline, comparing May 1980 prices and costs with those of a year earlier. [See table 1, p. 27.]

Crude oil cost increases account for about 75 percent of the increase in gasoline prices between May 1979 and May 1980.

Phased decontrol accounts for about 5.5 cents of the crude oil cost rise, or about 13 percent of the total increase in retail gasoline prices, and that is shown in table 2 [see p. 28] which is attached to my written testimony.

Refiner gross margins have also grown to reflect increased operating costs, such as higher refinery fuel costs, higher labor costs, higher interest rates, and higher equipment and maintenance costs. Dealer margins, which grew during 1979 have recently been declining because of reduced demand and increased competition.

You also requested, Mr. Chairman, an update on our enforcement activities concerning violations of the certification requirements by crude oil resellers, with particular emphasis on certification violations involving oil classified as stripper oil.

Stripper oil is petroleum from properties which have produced no more than 10 barrels per day. Since the Department appeared before you in April, our Economic Regulatory Administration has continued its campaign to detect and prosecute miscertifications by crude oil resellers. Since April, we have increased by 70 percent the total dollar amount of alleged violations involving crude oil reselling activities. We have issued enforcement documents to crude oil resellers alleging approximately $167 million in violations. That brings the total dollar amount to approximately $410 million.

At the same time, the Economic Regulatory Administration has undertaken to identify crude oil resellers who have not filed the required self-reporting form. Every firm that buys and sells crude oil is required to file this report each month, and that report accounts for all crude oil purchases and sales.

Based on current information we estimate that 412 firms may be crude oil resellers subject to the filing requirement. As a result of recent enforcement actions, including the issuance of 93 enforcement documents, there are 302 firms which have filed the crude oil reseller self-reporting forms as of July 15. We are taking action to

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insure that every crude reseller that is required to file the self-reporting form does so.

As part of our ongoing audits and investigations of crude oil resellers, we are pursuing possible willful violations of regulations. As of July 14, 1980 there were 41 open special investigations involving crude oil resellers. Forty-five percent of these involve possible false certifications on stripper. Since April, four special investigation cases have been opened which involve inquiries into possible false certification of stripper oil by crude oil resellers after January 1979.

We have also referred to the Department of Justice two cases which involved some false stripper certifications before January 1979.

In summary, we are continuing and will continue to enforce these regulations vigorously. I appreciate your comment, Mr. Chairman, that you commended us for this recent effort.

That concludes my statement.

[Testimony resumes on p. 31.]

[Mr. Duncan's prepared statement and attachments follow:]

STATEMENT OF CHARLES W. DUNCAN, JR., SECRETARY, DEPARTMENT OF ENERGY

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to present the Department of Energy's comments on the decontrol of domestic crude oil, other petroleum price and supply issues, and DOE enforcement efforts.

In early 1979, the President made the difficult decision to decontrol domestic crude oil prices on a graduated basis. Although this decision has resulted and will result in higher overall petroleum product prices than would otherwise occur it has several very important benefits: (1) It allows oil prices that reflect the true replacement cost of domestic crude oil thus making competitive alternate forms of energy; (2) it provides significant added incentives for domestic oil exploration and production; (3) it reduces demand for oil and thus reduces our dependence on imports; (4) it makes possible an orderly transition to a deregulated market; and (5) it improves the U.S. balance of payments and strengthens the dollar in the international community. It was for these reasons that the President began a program for the phased decontrol of domestic crude oil prices. Oil must be priced at its true replacement value if we are to stop subsidizing imports, increase U.S. oil production, reduce demand, and encourage the development and use of new energy sources. In order to prevent the oil industry from realizing excessive profits as a result of OPEC pricing action, an important element of the decontrol program is the windfall profits

Mr. Chairman, you have asked for our views on the impact of the Administration's program for phasing out crude oil price regulations.

There are five crude oil rules whose collective impacts bear upon the final costs to the consumer. They are: (1) the Marginal Well and Base Production Control Level (BPCL) Adjustment rules, which transfers certain volumes of Lower Tier oil to Upper Tier beginning June 1979; (2) the Newly Discovered Crude Oil rule, which provides incentives for new oil production by allowing such production to realize market prices; (3) the Tertiary Incentive rules, which allow certain volumes of Lower and Upper Tier oil to realize market prices in order to provide incentives for high-risk, high-cost enhanced oil recovery ventures; (4) Heavy Oil Decontrol, which allows low gravity, less desirable crude oil to sell at market price as a production incentive; and (5) Upper Tier Phased Decontrol, which transfers 4.6% of Upper Tier oil per month to market prices.

Decontrol of domestic crude oil affects both supply and price. In the short term, supplies will increase because producers are encouraged by the higher decontrolled prices to increase or initiate production from marginal and newly developed properties. The volume impact of this short-term response has been approximately 50 thousand barrels per day of incremental production to date, and we estimate this figure will rise to about 350 thousand barrels per day by September 1981. Moreover, 15 new enhanced oil recovery projects have been announced since the beginning of this program in August 1979.

A much more significant impact is the longer-term increase in exploration activity, which should result in additional domestic production sometime after late 1981. Drilling activity has also increased dramatically, up about 33% over the first six months of 1979.* On July 27, 1980 there were 2,943 rigs reported working, the highest number since 1955. Seismic crew activity is up about 31% as of May 1980 compared with a year earlier, according to the Society of Exploration Geophysic Seismic activity precedes exploration effort by about 18 to 24 months and drilling precedes production by about the same number of months. The precise longer-term increase in production resulting from decontrol is difficult to estimate because finding rates may differ from historical trends as exploration proceeds into more difficult areas and because exploration activity on which such production is based will depend in part on world oil prices.

It is also important to note reduction in demand as a result of higher oil prices. For the four weeks ending July 11, 1980, gross imports of crude oil and petroleum products together averaged 6.3 million barrels a day, which is 22 percent below the average for a comparable period last year. Much of the decline in imports can be attributed to higher prices.

The price impact of decontrol of domestic oil depends upon world price levels. Prior to June 1979, when phased decontrol began, about 60 percent of all crude run in U.S. refineries, including foreign oil, was uncontrolled. Therefore, an increase of $1 per barrel in world prices meant an

* The Hughes cumulative average rig count was 2702 for January to June 1980, compared with 2027 for the same period in 1979.

increase of 60 cents per barrel in U.S. crude oil prices, or about 1.5 cents per gallon. By early March 1981, about 85 percent of all crude oil will be uncontrolled. Most of this percentage increase will be due to phased decontrol, although some will result from the natural decline in controlled oil production. A $1 per barrel world price increase at that time would translate to 85 cents per barrel for U.S. refineries, or about 2 cents per gallon. With total decontrol the impact of the same increase would be the full $1 per barrel, or a little less than 2.5 cents per gallon.

You have also requested our current best estimate of the impact of crude oil decontrol, including specific assumptions on domestic production and prices and an estimate of the dollar impacts of decontrol. These estimates were provided earlier by letter and are attached to my testimony. The estimates are based on a number of assumptions regarding domestic production level, refinery runs, world prices, transportation costs, refinery operating costs, taxes, and refiner, jobber, and dealer margins. A list of the specific assumptions used in the ERA model was provided to the Subcommittee staff on July 9, 1980. In the model, world crude oil differentials between Saudi prices and those of other countries are assumed to follow current patterns, and the difference between FOB and landed costs is escalated for inflation. The relationship between spot and official crude oil prices has varied significantly thus far this year, from premiums as high as $15 per barrel over official prices to discounts of $2 under official prices. In our model we assumed an average $4 per barrel premium for spot crude through 1981, and we assumed that spot market crude would constitute 10% of all imports.

Product prices at the wholesale level are estimated based on historical relationships between these prices and the average acquisition cost of all crude oil by U.S. refiners (lagged one month). Jobber and dealer margins are escalated for inflation, and nonfederal taxes are assumed to increase to compensate not only for inflation but also for the declining volumes of gasoline sold.

The subcommittee staff earlier requested us to use the ERA model to estimate impacts based upon two alternate assumptions regarding the rate at which world oil prices increase: (1) prices increase with inflation (estimated at 10.4% in 1980 and 9.1% in 1981), and (2) prices increase at 15% annually. These estimates were provided to the subcommittee staff on July 9, 1980. In the estimates provided to the subcommittee on July 23, 1980, representing DOE's current best estimate of decontrol inpacts, we used the OPEC Long-Term Strategy Committee formula for escalating prices, that is, inflation plus 3% per year (to account for GNP growth in consuming countries.) This results in annual rates of 13.4% in 1980 and 12.1% in 1981, or about midway between the two cases run for the subcommittee staff.

Based on world oil price increases of between 10 and 15 percent annually, the impact of decontrol is estimated to increase the average U.S. refiner acquisition cost of all crude oil by a little less than a penny per gallon per month during the 1980-1981 period when the largest impacts of decontrol will occur. Since an increase in average crude costs

also tends to raise the cost of refinery fuel, which is the largest single component of a refiner's operational costs, further adjustments must be made to determine the full impact of crude oil decontrol on product prices. The gasoline "tilt" rule also contributes to gasoline prices reflecting more than their volumetrically proportional share of increased crude oil costs, since there are relatively greater costs involved in making gasoline.

Depending on market conditions, the total portion of prices of such higher-valued refined products as gasoline and heating oil attributable to crude oil decontrol may be 0.3 to 0.5 cents per gallon per month higher than a straight passthrough of higher crude oil prices. Residual fuel oil, on the other hand, tends to be priced below the cost of crude oil, and thus the impact of decontrol on its price will be less than the impact on crude cost. Roughly speaking, then, the impact of crude oil decontrol on gasoline and heating oil prices may range from a little less than a penny a gallon per month to a little less than a penny and a half per month. It should be noted that actual prices and impacts could be either higher or lower than these estimates depending upon a wide range of conditions which affect the assumptions, such as how plentiful supplies are and whether world crude oil prices rise significantly faster than 15% per year.

It is important to note that a portion of the impact of increased oil prices is returned to the consumer indirectly through the windfall profits tax. Up to 70% of the difference between the actual prices received and the price estimated under continued controls may be collected under this program for the benefit of the American public. The windfall profits tax revenues allowed the President to propose the energy security program to reduce import reliance and to assist low-income households by offsetting higher energy costs.

The Subcommittee requested an estimate of the relative contribution of several components of the increase in the national average retail price of gasoline. The following components were specified: (1) imported crude oil; (2) domestic crude oil; (3) retailer, reseller and refiner margins; and (4) motor fuel taxes. The attached tables give our best current estimates for full-service regular gasoline, comparing May 1980 prices and costs with those of a year earlier. We have used Platt's/Lundberg survey data for pump prices, taxes, and apparent dealer margins because these data show the most recent prices and appear generally consistent with DOE data over time. Crude oil costs are based on the previous month's refiner acquisition costs reported for Entitlements Program purposes. Domestic and imported crude cost have been multiplied by their volume share to obtain their contribution to cost increases. Because of the higher petroleum product prices resulting partly from decontrol, there has been a significant reduction

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in total petroleum demand, which has reduced oil imports and thus increased the share of domestic oil in the total. The increase in the domestic crude oil component of gasoline prices therefore represents not only higher prices paid for domestic crude as an incentive for increased production but also a reduction in our dependence on foreign crude oil. The combined refiner/jobber margin is calculated for each month by subtracting from pump prices the estimates of each of the other cost components. Data are not available which would enable us to separate this component into refiner margins and reseller (jobber) margins.

Crude oil cost increases account for about three-fourths of the increase in gasoline prices between May 1979 and May 1980. The domestic crude increase is higher than the imported crude increase partly because of the shift in volume share due to reduced imports and total receipts. The share of the domestic crude increases due to phased decontrol accounts for about 5.5 cents of the crude cost rise, or about 13% of the total increase in gasoline prices. Refiner gross margins have also grown to reflect increased operating costs, such as higher refinery fuel costs (which roughly track crude oil costs), higher labor costs, higher interest rates, and higher equipment and maintenance costs. The "tilt" rule has also contributed to higher refiner gross margins. Dealer margins, which increased during 1979, have recently been declining because of reduced demand and increased competition in the market.

INDEPENDENT CRUDE RESELLER AUDITS

You also requested an update on our enforcement activities concerning certification violations by crude resellers with particular emphasis on stripper oil certification violations.

Since the Department appeared before you in April, ERA has continued its campaign to detect and prosecute miscertifications of crude oil by crude resellers. As a first step, ERA undertook to identify crude resellers who had not filed the crude reseller self-reporting form. Every firm that buys and sells crude oil is required to file this report each month accounting for all crude oil purchases and sales.

We believe that the self-reporting form, initiated in October 1979, is a useful tool to target potential miscertification activities for audit. Based on current information, ERA estimates that 412 firms may be crude resellers subject to the filing requirement. By May, we had identified 202 crude resellers who had not filed the crude reseller self-reporting forms. ERA sent letters to these firms advising them of the filing requirement.

In June and July, ERA issued enforcement documents to 93 firms which had not responded or which had not made all required filings.

As a result of these efforts, by July 1980, 302 firms had filed the crude reseller self-reporting form. Action is currently being taken to ensure that every crude reseller required to file the self-reporting form does so.

Since April, ERA has increased by 70 percent the total dollar amount of alleged violations involving crude reselling activities. We have issued enforcement documents alleging approximately $167 million in violations to crude oil resellers bringing the total dollar amount of outstanding enforcement documents to approximately $410 million.

One enforcement document issued recently cites $108 million in overcharges, including $43 million in miscertifications some of which occurred during 1979.

Another document involved the purchase of 16.8 million barrels of upper tier, lower tier and stripper crude oil and the sale of the same crude oil certified as "foreign". In this case, ERA seeks disgorgement of illegal revenues totalling $47 million.

In addition, we are developing a cease and desist order to be issued in cases where miscertifications are found to be continuing. Special emphasis will be given to stripper oil certifications. The order would require the firm to cease all illegal crude oil certifications.

At the same time, ERA has continued to expand its audits of crude oil resellers for periods since January 1979. Presently, there are audits involving reselling activities in 1979 and 1980. In total, 147 crude resellers are under audit as of July 30, 1980.

SPECIAL INVESTIGATIONS ON CRUDE OIL RESALES

As part of our on-going audits/investigations of crude oil resellers, we are pursuing possible willful violations of crude reseller regulations.

As of July 14, 1980, there were 41 open special investigations cases involving crude resellers of which approximately 45 percent involve possible false stripper certification.

Since April four special investigation cases have been opened which involve inquiries into possible false stripper certification by crude resellers after January 1979. As indicated at the April hearing, the exact number of open cases involving inquiries beyond January 1979 changes frequently as the DOE extends and expands its audit periods, investigates additional firms, and refers cases to the Department of Justice (DOJ).

With regard to our referral activity, since October 1977 72 referrals have been made to DOJ involving over 150 firms. Twenty-four of these cases involved alleged unlawful crude reseller activity by approximately 39 firms. Eleven of these referrals involve some false stripper certifications prior to January 1979. Since the April hearing two additional referrals were made to DOJ involving three crude resellers involving some false stripper certifications prior to January 1979.

Reseller Spot Market Sales

At the Subcommittee's May hearings in Austin, Texas, you expressed an interest in our investigations of the gasoline spot market. Therefore, I would like to bring you up to date on ERA's activity in this area.

We have required 550 firms to justify the prices charged for motor gasoline during the shortages resulting from the turmoil in Iran. As a result of this effort, 200 firms have been targeted for audit and, to date, alleged violations of $25 million have been identified.

In addition, ERA has initiated 22 gasoline reseller audits in Texas. These firms are suspected of violating DOE's allocation regulations by selling gasoline on the spot market. As a result, alleged pricing and allocation violations totalling $9.6 million have been identified to date. Recently, the ERA has issued three enforcement documents for over $2 million dollars dealing with allegedly illegal spot market sales of gasoline.

In conclusion, I would like to reaffirm DOE's commitment to the active pursuit of crude oil miscertifications and illegal gasoline resales. Our enforcement program for crude and gasoline resellers will continue. It should result in additional enforcement actions where there is cause, including those involving the incorrect certification of lower priced crude oil as stripper and illegal spot market gasoline sales.

Mr. Chairman, this concludes my formal statement. I will be happy to answer any questions you have.

TABLE 1

COMPONENTS OF REGULAR GASOLINE PRICE INCREASE

(cents/gallon)

	May 1979	May 1980	Change
Pump price(1)	81.4	123.4	42.0
Taxes(1)	13.1	14.3	1.2
Apparent dealer margin(1)	11.9	13.5	1.6
Previous month crude oil(2)	34.6	64.5	29.9
Domestic(3)	16.0	33.0	17.0(5)
Imported(3)	18.6	31.5	12.9
Refiner/jobber margin(4)	21.8	31.1	9.3

Notes:

1. Pump prices, taxes and apparent dealer margins are from Platt's/Lundberg Survey data, which is generally consistent with EIA-79 data but available more currently.

2. Crude oil acquisition costs for the previous month are from Entitlements data (Form ERA-49).

3. Domestic and imported shares of crude costs are volume-weighted shares multiplied by acquisition costs. (For example, April 1979 domestic costs are calculated as $12.06/B x 8452 MB/D divided by 15220 MB/D divided by 42.

4. Refiner/jobber margins are calculated by subtracting other component estimates from pump prices.

5. About 5.5 cents is associated with increased prices due to domestic crude oil decontrol.

TABLE 2

ESTIMATED EFFECT OF CRUDE OIL DECONTROL

April 1980

Estimated Lower Tier volumes decontrolled	800 MB/D
Estimated Upper Tier & ANS volumes decontrolled	600 MB/D
Total estimated volumes decontrolled	1400 MB/D
Estimated price difference Lower Tier vs. market price	$27/B
Estimated price difference Upper Tier & ANS vs. market price	$19/B
Weighted average increase in decontrolled crude(1)	$23.57/B, or 56.1 cents/gal.
Impact of decontrolled crude on gasoline price(2)	5.5 cents/gal.

(1) (Lower tier volumes x lower tier price difference + upper tier volumes x upper tier price difference) - total decontrolled volumes

or ((800x27)+(600x19))/1400 = 23.57

(2) $\frac{\text{Decontrolled volumes x average difference in price}}{\text{total receipts of crude oil}}$

or (1400x56.1)/14319 = 5.5

Department of Energy
Washington, D.C. 20461

JUL 23 1980

Honorable Bob Eckhardt
Chairman, Subcommittee on
Oversight and Investigations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your letter of July 15, 1980, requesting the Department of Energy's current best estimate of the cost impacts of the Administration's crude oil decontrol program. In your letter you also requested computer printouts of the crude oil production volumes and prices which were assumed for the base case (no decontrol) and adjusted (decontrol) estimates, and a printout of the dollar impacts of decontrol.

The attached printout contains all the information requested in your letter. You asked that the estimates begin on June 1, 1979, when the first phase of the decontrol program went into effect. The ERA computer model is designed to produce estimates of various components of crude oil and product prices beginning in January 1980. Extensive restructuring of the model would be necessary to give a single output for June 1979 through September 1981, the last month of current controls. Therefore, to comply with your requested response date of July 23, 1980, we have used actual 1979 data to estimate 1979 impacts of crude oil decontrol and have used our existing model to estimate 1980 and 1981 impacts.

The 1979 data and estimates are presented in Tables 1 through 5 of the enclosure. The estimates were developed by taking actual data on crude oil volumes and costs as reported by refiners under the Entitlements Program and adjusting them as follows to estimate crude oil costs if the various crude oil decontrol rules had not been effective: (1) Marginal well oil (not reported on the Entitlements form but taken from First-Purchaser system data) was subtracted from Upper Tier receipts and added to Lower Tier receipts; (2) newly discovered oil was added to Upper Tier receipts; (3) heavy oil was divided 65% to Lower Tier and 35% to Upper Tier; (4) tertiary incremental and incentive oil was divided 50/50 between Lower Tier and Upper Tier; and (5) a "base case" average refiner acquisition cost of all crude was estimated assuming that the volumes affected by the crude oil decontrol rules would have been purchased at the average Lower Tier or Upper Tier costs, as appropriate, had they not been shifted to another category by the rules.

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Table 5 summarizes the cost data and estimates of Tables 1 to 4 and uses these to estimate the dollar impacts of decontrol during 1979. The impact on crude cost increased from an estimated 0.1 cent per gallon in June to about 1.9 cents per gallon in December 1979, with the total dollar cost amounting to about $1.3 billion during the seven months of 1979 when the crude oil decontrol rules were effective.

Estimates of the impact of crude oil decontrol during 1980 and 1981 are presented in Tables 6 through 23, which represent the output of the ERA model for estimating short-term crude oil and product prices. The assumptions used in this model were transmitted to the subcommittee staff on July 9, 1980, together with informal analysis done at subcommittee staff request. Tables 6 and 7 are production estimates by category of oil for the base case (no decontrol) and adjusted case (decontrol). Tables 8 through 11 give refiner acquisition volume and cost estimates for each case. Tables 12 through 21 give estimates of the impacts of the five rules which together are designed to decontrol domestic crude oil: (1) the marginal well and BPCL adjustment rule, (2) newly discovered oil decontrol, (3) heavy oil decontrol, (4) tertiary oil decontrol and the tertiary incentive rule, and (5) Upper Tier and ANS phased decontrol. For each rule, we have provided estimates of the volumes affected by the rule and the dollar impacts. Table 22 summarizes the dollar impacts for all five rules. Table 23 presents estimates of the maximum likely impact of these rules on regular gasoline (full-serve) and home heating oil, assuming these products are priced at the wholesale level in relation to average crude oil acquisition cost in the same ratio as they have been historically. To the degree that refiners pass through only the marginal costs of crude due to decontrol, the impacts would be those shown in Table 22; that is, by September 1981, when the impact is a maximum, the impact would be about 20 cents per gallon, as indicated in Table 22, rather than the 29 to 30 cents per gallon shown in Table 23.

These estimates represent our best current estimate of the maximum likely impact of crude oil decontrol. They assume that world prices grow at inflation plus 3%, in accordance with the formula proposed by the OPEC Long-Term Strategy Committee. If world prices rise significantly faster, the impacts would be higher. On the other hand, if high world inventories of crude and product continue to restrain product prices as they have within the past month or two, then the impacts could turn out to be less than those indicated in the attached tables. It is presently unclear what direction world oil markets are likely to move in over the next year and a half as crude oil decontrol proceeds.

If we can be of further assistance to you, please let us know.

Sincerely,

Harold M. Sorkin
Administrator
Economic Regulatory Administration

Mr. ECKHARDT. Mr. Secretary, I mentioned in my opening statement that there was a discrepancy in the cost estimates of our subcommittee and of your Department with respect to decontrol. I am trying to get at that question. I think there may be an explanation of it.

Actually, I suppose the differences should be emphasized as not being too great, but it is a large percentage of the 1979 picture.

Our staff analysis of the DOE estimates suggests that there is one simple factor which accounts for virtually all of this difference. It appears that the DOE estimate for 1979 simply omits the impact of one of the rulemakings. Whereas the shift of lower tier volumes to upper tier under the marginal well rule is assigned a cost, no mention is made in the DOE estimate of the even more costly shift to the upper tier under the adjusted base production control level amendment.

This amendment moved about 9 percent of all lower tier oil to the upper tier in June 1979 and 1.5 percent of it per month thereafter in 1979.

According to our calculations, the inclusion of this cost in your estimate would add almost exactly one-half million dollars to your figure for 1979, bringing it in line with our estimate of $1.8 billion.

Could you or your technical people comment as to whether that may be the difference in our calculations?

Secretary DUNCAN. I cannot comment on that precisely. I didn't make those calculations. I will ask Hazel whether she can be of help.

Ms. ROLLINS. We included in our calculations the impact of the marginal well, generally that first 9 percent which was released in June and the continuing 1.5 percent each month thereafter.

I suspect it would be useful if after this hearing our staffs got together and spent some more time examining that issue.

Mr. ECKHARDT. I would like to see that done. It would seem to me, however, that if we assume that you did not—say you did include the 9 percent upper tier oil?

Ms. ROLLINS. We did include it.

Mr. ECKHARDT. You mean in 1979 as well as later?

Ms. ROLLINS. We showed it when we first captured the impact of the marginal well increases.

Secretary DUNCAN. There were five things considered, five rules, as you know. My information here indicates that both the marginal well rule and the base production control level adjustment rule were considered. I have not seen the actual calculation.

Mr. ECKHARDT. What I am trying to get at is whether or not this 9 percent of all lower tier oil shifted to the upper tier in June 1979 was included for the year 1979, for the rest of the year 1979, in the calculation.

The reason I raised that question is that it would seem almost a coincidence that the one-half-billion dollar difference happens to be about that level. If that consideration were left out of your calculation that would be the end result.

Ms. ROLLINS. The 1979 figure does include those amounts released to upper tier. The discrepancy may well be, I am told by staff, that we did not report what we had estimated in our regulatory analysis when we prepared that rule but instead reported

from actual data which had been provided to us. Therein may lie the discrepancy.

However, I find it hard to believe nobody took advantage of that rulemaking. It is for this reason I believe it would be useful if we had discussions after this hearing.

Mr. ECKHARDT. For 1980–1981, our estimate of the cost of decontrol is about $9.5 billion above DOE's. Again, we believe that a single factor accounts for most of this difference. Specifically, actual production and refinery receipts of so-called newly discovered oil for the first 4 months of this year indicate that your computer model seriously underestimates volumes and hence the cost involved in shifting crude oil from the upper tier to the newly discovered category under that rule.

From January to April 1980 your estimates of the volumes of newly discovered oil are on the average less than 60 percent of actual production. This understates volumes actually shifted during the 4-month period by nearly 20 million barrels.

At the prevailing price differentials between newly discovered and upper tier oil averaging $25 per barrel, this would lead your computer model to understate the actual cost of the shift for just these 4 months by $492 million.

Projecting to September 1981 from the actual volumes of newly discovered oil for the past 11 months, we estimate that your lower estimate of volumes shifted under the newly discovered crude oil rule will make the overall DOE estimate for 1980 and 1981 too low by something on the order of $5.7 billion.

Do you think that might account for that discrepancy in our figures?

To point out what we are looking at, look at your table 14. You have newly discovered oil projections. January, 184,000 barrels per day. The figure for February, and so forth, is shown, whereas the actual figures were considerably more than that when they came in.

Ms. ROLLINS. Mr. Chairman, the discrepancy may lie within the fact that basically we have tended to deal with one aggregate number for all market tier oil and the components therein vary depending upon where we are in our rulemaking process.

Once again, I am certain that our aggregate number for the market tier is correct and you and your staff may be more than correct in that we are a little off in terms of our designation of just one category within that composite. I think therein lies the error, but I believe our aggregate figures are pretty much in sync.

Mr. ECKHARDT. Would you get together with our staff concerning this and see whether we are at a difference in our calculations?

Ms. ROLLINS. There are so many tables and we have done so many runs that it occurs to me there are more than a number of these misfits, if you will.

Secretary DUNCAN. If I might make a general comment on that, Mr. Chairman.

Mr. ECKHARDT. Surely.

Secretary DUNCAN. You know the number could be 47 or 48 or more nearly the calculations you have made, which I judge were in the 52 area. I think we should be cautious here about our trying to

get a degree of precision in this which exceeds the precision of the assumptions.

For example, we have assumed certain rates of crude oil increase which may or may not be the case. We assumed a certain premium of the spot market costs and a percentage of spot market oil which may or may not be the case.

Also, we have assumed certain availability and decline rates on our domestic crude which may or may not be the case. I think, therefore, that we run the risk here of trying to be overly precise. However, I don't argue against the staffs getting together because on the same assumption we ought to come up with the same number. I just wanted to make that general comment.

Mr. ECKHARDT. I understand that. However, I think we want to find out as closely as we can what a reasonable estimate is.

Secretary DUNCAN. I do not debate that.

Mr. ECKHARDT. Estimates have been pretty wide of the mark in the past. In April 1979 when the President's administrative action to implement his accelerated decontrol plan was announced, DOE estimated that the package of measures referred to on page 2 of your prepared statement will result in between 742,000 and 839,000 barrels per day additional crude oil production in 1985 compared to the continuation of the controls.

Specifically on April 24, Mr. Schlesinger testified before the Energy and Power Subcommittee:

> We would expect the production response by 1985 to be on the order of 740,000 barrels. However, that could be somewhat higher depending on how high OPEC prices go. I believe our estimates have been designed to be on the conservative side, and therefore I would have reasonable confidence that we will reach 740,000 barrels a day additional supply.

I would like to cite exhibit No. 2 [see p. 7] prepared by the subcommittee staff based on studies done for the DOE Policy and Evaluation Office when accelerated rate decontrol was announced last year and recently updated in June 1980.

Despite dramatic increases in OPEC prices in the last year, the new updated study has revised downward the domestic crude production estimate from decontrol to 516,000 in 1985.

Is that correct?

Secretary DUNCAN. Mr. Chairman, I am——

Mr. ECKHARDT. You are estimating 516,000 barrels.

Secretary DUNCAN. That is the estimate. However, I would like to make a couple comments about anyone's estimates.

We have only a very small amount of domestic production now using enhanced oil recovery techniques. I personally am very hopeful and optimistic that we can get a substantial recovery of oil from existing reserves using enhanced oil recovery techniques. However, that is by no means a certainty. So far we have used only thermal methods. When we get into chemicals or carbon dioxide we may get much better results. I, for one, hope we do.

However, the reasons for decontrol went beyond the issues we are talking about here. The issues involved the development of alternatives, giving the right incentives for conservation, discontinuance of subsidizing foreign producers, the importance of getting control of our energy future which we could not have obtained and would not have obtained had we continued policies of control.

Mr. ECKHARDT. Mr. Secretary, I understand that there are other factors, but some of the things we were taking into account at the time led us to believe that some things other than what perhaps should have been done would be accomplished.

For instance, I had urged at that time—I know that your general counsel remembers this—that there were banked funds which could be used to accomplish considerable encouragement of production.

For instance, we could have taken care of the newly-discovered oil question with a rule which could have been accomplished without decontrol. As I recall the estimate for June of 1980, it is that from newly-discovered oil alone there could have been a production response of 396,000 barrels.

When the Department was talking about 740,000 barrels accomplished by decontrol, that is a considerable addition over what could have been accomplished without decontrol.

However, now, when we are estimating a production response of 540,000 barrels, we see that the estimate that could have been accomplished without decontrol comes very near what could have been accomplished with decontrol.

These kinds of discrepancies warp our judgment, it seems to me, at the time the action is taken. Much too sanguine a view as to production response was taken at the time the President made his decision on June 1 of 1979.

Would you not agree that was a rather sanguine judgment?

Secretary DUNCAN. We can debate numbers, Mr. Chairman, but the actions which the President took on June 1 of 1979, announced in April and actually effective June of 1979, in my judgment were absolutely essential for us to make the moves forward.

We have today more drilling rigs active than we have had in 25 years. I hope they are tremendously successful.

We have more activity in the development of alternatives today than we have had in history; except for alcohol, there were no synthetic fuels plans in America. We have had more meaningful conservation achievements this year than we have ever had.

I say these things are attributable in large measure to decontrol. The reasons for decontrol, the fact that the market for international crude oil did what it did in 1979, made it even more important that the President took those decisions in the early part of 1979. I think he did precisely the right thing with precisely the desired impact.

If we were not conserving the 1.4 million barrels per day, or whatever it was, in the last 4 weeks I just referred to, we would be paying $32 a barrel on the average for that oil. That is billions and billions of dollars.

If we did not have in place the conservation that we are now achieving, one of the real costs of control has been that we have built a national infrastructure in America, meaning the way we design our cities to the kinds of cars we drive, that does not emphasize energy efficiency.

We are now emphasizing energy efficiency throughout America, and that is a function of decontrol.

Mr. ECKHARDT. I see. You are focusing now—and I think this is certainly a significant question—on the effect of decontrol on dampening demand for oil.

Secretary DUNCAN. The competiveness of alternatives.

Mr. ECKHARDT. I was trying to get into the question of whether or not in fact decontrol actually increased, created production response very much in excess of, what would have happened under control.

Is it correct that DOE in December of 1978—that is more than 3 months prior to the President's announced crude oil program—announced its intention to allow newly discovered crude oil to receive the marketplace?

I suggest this is because I think that at that time you could have made such a rule within the constraints of yor banked funds. You did not have to anticipate the President's removing controls at that time.

Is it not true that DOE, in December of 1978—more than three months prior to the President's announced crude oil program—announced this intention?

Mr. COLEMAN. I missed the first thing you said. Intention to do what in December of 1978?

Mr. ECKHARDT. Intention to allow newly-discovered crude oil to receive the marketplace.

Secretary DUNCAN. I was not there in December of 1978.

Mr. ECKHARDT. I seem to remember that myself.

Ms. ROLLINS. The answer is that we did issue a notice of proposed rulemaking. A major comment to be made is that frequently the Department issues such notices and does not go to final rulemaking.

Mr. ECKHARDT. So we could have decontrolled newly-discovered crude oil while maintaining adequate controls because that was anticipated at the time that that would fit within the available banked funds.

Mr. COLEMAN. When you refer to banked funds I assume you refer to the allowable——

Mr. ECKHARDT. What has not been used up under the EPCA composite figure.

Mr. COLEMAN. That is right.

Mr. ECKHARDT. You still could have obtained by that policy, even had the President not removed controls on June 1, about 77.5 percent of the domestic production response you currently project.

Secretary DUNCAN. There is one overriding factor here, Mr. Chairman.

Mr. ECKHARDT. Is that true?

Secretary DUNCAN. The President cannot drill successful oil wells, but he can create policies that give incentives to the drilling of oil wells.

I repeat that the limiting factor today in drilling more oil wells is the availability of rigs.

The rigs we have in America today are active. We have created policies and programs and mechanisms to cause that to happen.

There are investors lined up who want to drill oil wells. We hope, you and I both hope, that they are successful in those efforts because to the extent they are it relieves our problem.

These policies, including decontrol, have encouraged drilling activity. There is more today, as I repeated, than there has been in 25 years.

Mr. ECKHARDT. Perhaps so, but my question is simply this: Under your own estimate you say that the estimated increased production from decontrol would be 516,000 barrels per day of increase. You say the portion of that attributable to newly discovered oil which could have been done without decontrol is 396,000 barrels.

I am merely asking whether 396,000 barrels from your estimate of newly discovered increased production is not 77.5 percent of 516,000 barrels which you estimate is increased production from decontrol.

Secretary DUNCAN. That is just a matter of arithmetic, yes.

Mr. ECKHARDT. That is right. The newly discovered rule was announced prior to decontrol and could have been put in without decontrol. That is the point I am making.

Thus, without decontrol, by simply putting into effect your newly discovered rule, you could have achieved 77.5 percent of the increased production according to these figures.

Secretary DUNCAN. I think you are making a conclusion that is just far too simple from that set of facts.

When you look at what is happening to prices, when you look at what is happening to the crude oil market today, when you see that three oil companies reduced crude oil prices in America yesterday, you can see a condition has been created where the supply of crude oil at the moment—and I underline and emphasize "at the moment" because it will not continue indefinitely—seems to be relatively satisfactory. That is a result of conservation. That is a result of all this drilling activity, giving us oil which we otherwise would not have.

You know, you can look at these numbers and you can make these kinds of conclusions. However, the basic issues are—are you using energy more efficiently? Are you conserving it? Are you trying to develop alternatives? Are you looking for oil and gas? Are you looking for conventional oil resources?

The answer to all those questions is a very loud "yes."

Mr. ECKHARDT. There are a lot of factors in this equation, of course. One of those you like to stress is discouragement of use of oil, that is dampening of demand. I do not doubt that increase in price dampens demand.

The only thing I am trying to get at is whether or not the other factor, that decontrol would actually encourage production, was a valid fact at the time.

I am not now exercising enlightened hindsight because I had strongly urged, as I think your counsel knows, that much of what could have been done, much of what could have been done with respect to encouraging newly discovered oil production, could have been done under the composite figures and under EPCA as it then existed.

I am merely stressing here that the decontrol syndrome may not have resulted—and I think under these figures did not result—in nearly the increase and production response that was anticipated. In fact, the production response which could have been created merely by passing the rule under EPCA would have accomplished

77.5 percent of the encouragement which occurred with decontrol at a cost of perhaps an average of $2 billion a month to consumers between now and September of 1981.

Mr. MOTTL. If the chairman would yield.

Mr. ECKHARDT. Yes, I will yield to the gentleman.

Mr. MOTTL. You are right. The conclusion I get from these facts and statistics brought out this morning by you, Mr. Chairman, and also our esteemed Secretary, is that the only desirable thing that came about as a result of decontrol was that there might have been more drilling and more conservation, but the consumers really paid through the nose for the decontrol of oil in this country, and probably the desirable effect of conservation could have been better brought about by coupon rationing rather than rationing by increasing the price.

Secretary DUNCAN. The amount of increase in gasoline prices attributable to crude oil decontrol is only 5.5 cents.

When you have foreign producers in control of price and supply of crude oil in the world market, and where you have been recently dependent almost to the extent of 50 percent of your total oil requirements on foreign producers, and where crude oil increases represent the predominant part of increases in gasoline prices, you do not accomplish anything by rationing. To think that rationing is an alternative which avoids price increases I think is very fallacious.

I know that is a view which is held by many, many people, but I think that it is very important to recognize that the rationing plan, which I support and think we must have as a standby emergency mechanism, I think it is extremely important that the rationing plan now before the Congress be approved for that reason. However, it is an emergency measure and it is a standby measure. It is not a substitute for price.

Mr. MOTTL. You stated it is only 5.5 cents added. Will it not be 30 cents a gallon by October of 1981?

Secretary DUNCAN. It will increase, as I stated in my prepared testimony, about 1.5 cents per month—about 1 cent attributable to crude oil and another three- to five-tenths of 1 cent attributable to the increased cost of operating the refinery. Of course, the cost of oil itself is an important ingredient in refinery costs.

Mr. MOTTL. It adds up to 29 or 30 cents a gallon?

Secretary DUNCAN. Yes, but how will you avoid that?

Mr. MOTTL. Rationing with coupons.

Secretary DUNCAN. The alternative is to continue to subsidize foreign producers, to continue to weaken the dollar, to continue dramatic economic impacts on this country. You are recommending precisely those things that we have to move away from. For us not to price oil at its replacement cost is dramatically in the long term to the disinterest of this Nation. I will go to my grave believing that.

Mr. MOTTL. We could have the same desirable result by rationing by coupon rather than by prices?

Secretary DUNCAN. I don't think it accomplishes that for the reasons I have articulated. I don't think that is an alternative at all.

Mr. MOTTL. Thank you.

Mr. ECKHARDT. Mr. Gore?

Mr. GORE. Thank you, Mr. Chairman, and thank you, Mr. Secretary.

I think the chairman has asked the relevant questions with regard to the figures. I think followup is often neglected in the Congress and it is important for us to have accurate figures if we are going to make decisions which are correct. I think the chairman has shown very well that some of the figures need to be reviewed.

I would like to ask some questions about a couple unrelated matters. We have a full committee markup and I will have to leave soon.

First, I would like to ask you about the ongoing investigation by the Department of Justice of Aramco and tell you that I have been following this very carefully. I have run across indications that the Department of Energy has repeatedly expressed concern to the Department of Justice that it should not pursue the second round of CID's—civil investigative demands—too vigorously because of the reaction that might be forthcoming from Saudi Arabia.

The purpose of my question is to elicit from you some kind of statement that you and the Department of Energy will be sensitive to the need to allow justice to run its course and not interfere with the most vigorous possible pursuit of this investigation by the Department of Justice.

Secretary DUNCAN. I certainly don't want to interfere with that. I can accept the statement that you just made.

I was under the impression when I just asked the general counsel, and perhaps he can comment, I was under the impression that the issue on the CID concerning Aramco, had been resolved, that a representative of the Attorney General's office had made a trip to Saudi Arabia, which I thought was very satisfactory, and all parties were comfortable with the agreements reached.

If there is a continuing problem there, I will have to ask Mr. Coleman to comment.

In a timeframe of about May I thought some of those issues that had been lingering for a while had been resolved.

Mr. GORE. No. The investigation has been put on hold and the information has not yet been obtained, but the Department of Energy has expressed concern repeatedly—go ahead, Mr. Coleman.

Mr. COLEMAN. Mr. Gore, prior to when Mr. Shenefield, who at that time was Assistant Attorney General for Antitrust, went to Saudi Arabia to meet with the Saudis to discuss the investigation of the Department of Justice and the need for information, access to which had been objected to by the Saudi Government, prior to that meeting we had a discussion with the Justice Department essentially to brief them on what we knew of Saudi attitudes and the general sensitivity of that issue.

In no way did we suggest that the Justice Department discontinue its efforts, but we thought they should be informed of what we were aware of in terms of attitudes they might encounter on the part of the Saudi Government.

They made the trip. To my knowledge, the Department has had no further input into that investigation. Certainly I have not and I don't believe the Secretary has.

Secretary DUNCAN. I have not.

Mr. COLEMAN. I cannot say that no one at the Department has had discussion with regard to it but, I am unaware of it if that has occurred.

Mr. GORE. There may have been no formal communication by the Department of Energy, but on an informal basis there have been repeated entreaties to personnel at the Department of Justice. I would just hope that you, Mr. Secretary, would be aware of this and that the Department of Justice be allowed to pursue this matter as vigorously as possible.

You look at the Fortune 500 list. You have the No. 1 corporation, the No. 3 corporation, the No. 5 corporation, and the No. 6 corporation all in a joint agreement controlling 20 percent of the world's oil.

The details of that agreement between those four giant corporations have been requested by the Department of Justice. The information is here in the United States. It is relevant to suspected violations of American antitrust laws which have caused alleged damage to American consumers, and these four companies have as yet declined to give the information to the Department of Justice because of objections cited by persons in Saudi Arabia.

As the Justice Department pursues this, and I believe they are intent on pursuing it vigorously, I would hope that the Department of Energy and the Secretary of the Department of Energy would be extremely sensitive to the need for American antitrust laws to be pursued vigorously. I would hope that DOE would, not allow itself to be used by someone in Saudi Arabia or in Aramco to in any way impede the vigorous enforcement of our antitrust laws because the anticompetitive results of this kind of arrangement can be extremely damaging.

Secretary DUNCAN. I certainly have no desire and no intention to impede the enforcement of antitrust laws.

Mr. GORE. I believe you, Mr. Secretary. I hope that this interchange will make its way to those in the Department of Energy who have been conveying those messages on an informal basis.

Let me ask one other set of questions on another unrelated area. We are trying to be more sensitive to not tying up your time and, as a result, I want to get several things off my chest in one hearing.

Secretary DUNCAN. I appreciate that.

Mr. GORE. The Department of Energy announced a first round of grants for feasibility studies for synfuel plants and this week held debriefings to explain to unsuccessful applicants why their proposals were not granted.

Secretary DUNCAN. Right.

Mr. GORE. I was surprised to learn that some of the debriefers stated that projects automatically lost points if they were proposed by public entities, such as State governments or State energy institutes.

As a member of the conference committee, let me just say that if we had intended such a result we would have stated it either in the legislation or in the report.

I am not familiar with any part of the law or the report which asks the Department of Energy or the Energy Security Corporation

automatically to indicate a prejudice against public ventures such as those proposed by State governments or State energy institutes.

Do you agree with my analysis of the law in the report?

Secretary DUNCAN. I do. I am not aware of any such thing. I will check into it, however.

Mr. GORE. Thank you very much.

Secretary DUNCAN. When I go back I will do it. There were nine criteria that I approved. These were to be used in that evaluation. That was not one of the criteria.

Mr. GORE. Very well.

Secretary DUNCAN. The nine would be to ensure that we got a broad range of technologies, to ensure that we did things that would give the maximum incentive to early commercialization of technologies, those which had the most immediate energy contribution to make, to see that a local situation was not disadvantaged because it was local and might not be national in scope, for example geothermal, to get a reasonable geographic spread. Those are the kinds of things that were in my criteria but certainly nothing like the point you suggest. I will check into that.

[The following response was received from Secretary Duncan:]

I can state categorically that no proposer lost points during their evaluation under the Alternative Fuels Production Program because they were public entities. Both the law and the solicitation clearly state that any non-Federal entity is eligible (consistent with the purposes of the legislation. I can only assume that the proposer may have misunderstood points made during debriefings.

One of the evaluation criteria was the proposer's experience in developing and operating projects similar to that proposed. It is possible that public entities would not themselves have such experience in significant measure and would have to incorporate such experience in their project through joint ventures or other management techniques. The proposers being cited may not have adequately done so, and may be attributing their lack of success to their organizational identity rather than to a particular condition related to that identity.

Mr. GORE. There is an excellent proposal by the State of Tennessee. I ask these questions because I think they were unfairly marked down on a criterion that nowhere appears in the law or the report.

Second, a lot of people were enthusiastic about the synthetic fuels effort because they had in mind the effort to produce gasoline or other oil products from coal, shale, and tar sands.

In this first round of feasibility study grants there are only two coal liquefaction proposals. You have dozens of SASOL plants which I support very strongly. You have several methanol study proposals, and many, many gasification proposals, all fine projects. However, the center of the bull's eye, it seems to me, is to produce a fungible substitute for imported liquid fuel, and there are only two on the entire list.

I would hope you would review that set of priorities as well.

Secretary DUNCAN. I will. On the coal gasification area there are the two you referred to. These are huge projects involving large amounts of money. In the case of eastern coals, of course, we will in the case of coal—let me amend that.

Mr. GORE. Most are in the West.

Secretary DUNCAN. We have the four pilot projects and demonstration projects at the Department of Energy, SRC1 and SRC2. We have the American Natural Resources plant hopefully getting underway this summer, and that is pursuant to the use of interim

authority, and I am sure you are familiar with that situation. Therefore, we are doing a lot of coal gasification. We have some experimental work on coal gasification. That is very important.

We have 971 responses to that solicitation. Some two-thirds or more of those responses were for gasohol, for the manufacture of ethanol for gasohol. That is a smaller scale operation.

You know, a plant to manufacture methanol is something quite different from a coal gasification venture which ultimately will involve billions of dollars. Just by the nature of the project itself one is very capital-intensive and the other is not. That will mean that the scale of those things will always be, if you look at it totally numerically——

Mr. GORE. We will see a tremendous production response there. However, I would hope liquefaction would also be pursued vigorously.

Secretary DUNCAN. I have testified with regard to liquefaction, and I am very enthusiastic about that project.

Mr. GORE. The thrust of your early response was to third and fourth generation technologies. If you look at the deliberations of the conference committee we weighed the relative merits of putting all our eggs in that basket and waiting for the development of third and fourth generation technologies or putting some of our eggs in the Fischer-Tropsch basket and going for an immediate liquefaction response. I think we can do that.

We had a liquefaction program in the late forties and early fifties in this country. We have lost 25 to 30 years because that program was abandoned.

Part of this effort, I think, should be directed to a quick liquefaction response to explore the new refinements in liquefaction that South Africa has developed with SASOL 1 and 2, and see how far we can push that at the same time we develop third and fourth generation liquefaction. We have slighted the Fischer-Tropsch option. I hope you can look at that.

Secretary DUNCAN. That is a good option. The fact we did as well as I think we did, first person singular, on this first round of feasibility studies and cooperative agreements means that we have, as you know—because you contributed to it—another $300 million. We hope to be putting those out very soon, even within days as opposed to weeks or months, so we are moving very quickly again.

Mr. GORE. On the supplemental.

Secretary DUNCAN. On the supplemental, the next $300 million to supplement the $200 million. There is ample opportunity for those kinds of projects now, and very quickly.

Mr. GORE. Thank you for your response. I appreciate you have taken questions on these unrelated matters, and I appreciate your appearance here today.

Thank you, Mr. Chairman.

Mr. ECKHARDT. Mr. Mottl?

Mr. MOTTL. These are also unrelated but very interesting questions, at least to me.

I think you alluded to the jobbers in Texas, the big ripoff scandals. I think "60 Minutes" alluded to these as well as some of the national periodicals. Oil jobbers in Texas were selling old oil at new oil prices and becoming millionaires overnight.

There were allegations that some of the money went into the billions and also that there were some of the Department of Energy employees involved, and perhaps even some Department of Justice employees involved.

Can you tell the subcommittee at this time how many prosecutions have been made, the number of indictments issued? Have any employees of the Department of Energy or Justice been involved in this?

Secretary DUNCAN. I am looking for my backup sheet.

Mr. COLEMAN. You are asking about crude oil resellers?

Mr. MOTTL. Yes.

Secretary DUNCAN. There have been 42 firms which have been cited for civil violations. That totals some $410 million. Presently 147 firms are under audit, with 72 firms under audit for 1979 audit periods and later.

There are three firms which have been cited for stripper oil violations for 1979 or later. Some 202 firms have been issued warning letters for nonfiling or partial filing.

Ninety-eight firms have been cited for failure to fully comply with the filing requirements.

On the special investigations side, we have made 24 referrals involving 39 firms to the Department of Justice. Eleven of these referrals involve some false stripper certifications which were prior to 1979. Forty-one additional crude reseller investigations are underway. Eighteen involve stripper violations, with nine involving potential stripper violations in 1979 or later.

For the 24 referred cases to the Department of Justice there have been 15 pleas, 17 indictments, and 3 convictions.

Mr. MOTTL. Have there been any employees of the Department of Energy involved here?

Secretary DUNCAN. Not to my knowledge.

Mr. COLEMAN. I think that is correct.

Secretary DUNCAN. Not to my knowledge. I will check it.

Ms. ROLLINS. In the past 2 years there were many allegations raised in the papers in Texas which tended to imply that DOE employees had been involved in illegal conduct. All of those instances have been examined. Where it was deemed appropriate, those allegations should be referred to the Department of Justice. That was the case.

My report from our Inspector General is that none of our people were found to have been involved in those activities and the slate for them is clean. I am not aware that the Justice Department is taking any action with regard to any of those.

Mr. MOTTL. How many employees that were allegedly involved were referred to Justice?

Ms. ROLLINS. No referrals have been made to the Department of Justice by the Inspector General of the Department.

I can tell you of my own personal knowledge I am aware of the fact that two of our employees were smeared in the newspapers and those two employees were cleared of any wrongdoing.

Mr. MOTTL. As to this alleged scandal, how many millions or billions of dollars do you think were involved where the consumer was ripped off? Do you have a rough idea on that?

Ms. ROLLINS. Again, I always find myself in the position of either having to quote the figure which has been put in the press or give a figure in terms of what we have managed to identify.

During the period October 1977 through July 1980, violations identified in issued documents in the crude reseller program totalled nearly $410 million. I can say that the enforcement effort generally since 1977 has managed to recoup more than a billion dollars, either back to individually identified consumers or in rollbacks.

Mr. MOTTL. It could be in the billions of dollars to consumers?

Ms. ROLLINS. Again, I have difficulty indicating that. The real measure is to look at the end of the year and see what has been identified.

Mr. MOTTL. Is this problem now under control?

Ms. ROLLINS. I firmly believe it is under control. It is perhaps more appropriate for the Secretary to tell you whether he believes it is under control.

Secretary DUNCAN. If it is not under control, I am not aware of it. I think the point the chairman made earlier is a very important point to make here.

It is important we continue to look at these things, that we continue rigorous enforcement activity. That is what the chairman was talking about and that is what we need to do and intend to do.

While it may be all right now, it does not mean we should not continue to watch it.

Mr. MOTTL. One other question, about Sohio. Being from Cleveland, and knowing that for practically 4 years during the construction of the pipeline that consumers of Sohio, which supplies about 25 percent of the gasoline for Ohio, was paid higher amounts for their gasoline than other competitive service stations there, Sohio for a while was selling gasoline at practically 11 cents a gallon cheaper.

The Department of Energy came up with the new rule and regulation which said this could no longer be done, and you held hearings thereon. Sohio voluntarily then raised the amount.

We are concerned about the service station dealers so they can stay in business. However, why should not the consumer in Ohio be able, at least until October of 1981, approximately a year or a year and a half, after they had paid a premium for gasoline for 4 years to help pay for the pipeline, be able to secure the fruits of the wisdom of Sohio and British Petroleum in being able to purchase gasoline at a cheaper price?

Secretary DUNCAN. The reason for that is this: Sohio had the same entitlements credits as a refiner buying foreign oil. It was giving Sohio and the customers that Sohio sold to a tremendous cost advantage. They were selling so cheaply in Ohio that the independent dealers in Ohio came to us for relief because they were being put out of business.

The rule we tried to make was to say—let's treat North Slope oil the same as any other oil and discontinue the same entitlements that it would get as foreign oil.

That meant some oil would go up and some gasoline would go up and some gasoline would go down, but at the refiner level there would be no change in the price of gasoline to the consumer.

We were building equity into a situation which had become inequitable. That was the intent of that rule.

Mr. MOTTL. I can understand your concern for the service station dealers and competitors of Sohio, but how about the consumers?

Secretary DUNCAN. The consumers of the Nation——

Mr. MOTTL. Consumers in Ohio.

Secretary DUNCAN. The consumers of the Nation will be paying at the refiner level. The price of gasoline ought to be identical after this rule as before the rule.

Mr. MOTTL. I am talking about consumers in Ohio.

Secretary DUNCAN. Consumers in Ohio who had had a windfall as a result of this inequitable treatment, when you created an equitable situation for the Nation it meant other consumers were paying for the windfall that Ohio consumers had. When you build equity into the system, you try to treat everyone alike.

The situation today is that everyone is being treated identically on that. That was not the situation before this rule.

The net change on gasoline prices as a result of this rule at the refiner level ought to be zero.

Mr. MOTTL. But there was inequity for the consumers of Ohio for 4 years.

Secretary DUNCAN. We have to build equity for consumers. We have to manage our policies and our Department in such a way as to create the maximum equity for the consumers of America. That is what this rule did.

This thing was promulgated by retailers in Ohio that were being driven out of business by not having the same cost advantage that a company had which had access to Alaskan North Slope oil.

Mr. MOTTL. I still feel——

Secretary DUNCAN. They felt that was unfair.

Mr. MOTTL. The consumers, I thought, were ripped off in Ohio.

Secretary DUNCAN. I don't think you can argue that when you treat consumers across this Nation as equitably as you possibly can that that is faulty policy.

Mr. MOTTL. But 4 years prior to that they were paying more for that pipeline.

Secretary DUNCAN. They were paying more for the pipeline?

Mr. MOTTL. Paying more per gallon of gasoline in Ohio.

Ms. ROLLINS. That is not true.

Secretary DUNCAN. I don't understand how that would be the case.

Mr. MOTTL. I got that from Sohio officials.

Secretary DUNCAN. I would have to see the backup on that before I understand why that would be the case.

Mr. ECKHARDT. Mr. Secretary, on page 10 of your prepared testimony you make reference to an enforcement document issued recently which cites a crude oil reseller for $108 million in overcharges.

Is the document you refer to the notice of probable violation issued yesterday afternoon to Langham Petroleum Corp., and is it correct that among the alleged violations were overcharges of $18 million for 4 million barrels of price controlled crude oil which were miscertified as stripper during the first 6 months of 1979?

Ms. ROLLINS. Mr. Chairman, yes; that is correct. Those numbers are correct.

Mr. ECKHARDT. I am pleased to see that the Office of Enforcement has issued its first significant NOPV for stripper miscertification violation during the 1979 and later time period.

In reviewing the NOPV issued to Langham, I notice the firms to whom it sold oil were almost exclusively other resellers and not refiners.

Could you comment on the benefit to consumers of having these barrels of oil sold 3, 4 or 5 times, or as some data would suggest 10 times, among and between resellers before it ever reaches the refinery?

Is there any benefit in this line of reselling? How is this justified, if at all?

Mr. COLEMAN. I will give you a general comment. We think the benefit obviously is minimal. There can be justified roles for what are called resellers. Traditionally they provided an important function in gathering and in transportation. They may assist smaller producers in finding a market. They may assist independent refiners in finding crude oil. Those are largely the legitimate functions that a trader, as you might describe it, would perform.

However, we find that after we came to have a two-tier pricing system in this country after 1973, when part of the oil was controlled and part was at either a higher price or decontrolled, that the numbers of these traders or the resellers increased tremendously, and the view of the Department is that they contribute quite minimally.

Mr. ECKHARDT. There is no reason you would need any more for any legitimate purpose today than you needed in the past. Is that so?

Mr. COLEMAN. During periods of shortage there might be a need for more activity of that kind where you have refiners having to scramble much harder for oil supplies. That would be true principally in foreign markets but not in U.S. markets.

Mr. ECKHARDT. Maybe that would justify doubling from about 50 to 100. What we have seen is an increase from about 50 to about 400 during this period of time.

Mr. COLEMAN. Very obviously. That is the reason we have mounted such a very intensive investigation of those firms, because the very fact someone comes into business after you have two-tier pricing really makes you want to look and see why they did it.

The results we have had to date indicate that often their purpose was not a very legitimate one.

Mr. ECKHARDT. Since our hearing in April, the Office of Enforcement has made progress in extending opening audits concerning oil during 1979 and 1980. However, those audits take time to complete. I am concerned with the continuing nature of stripper oil miscertification violations since DOE data indicates a discrepancy between first purchases and refineries 'receipts of stripper crude oil increased from an average of 200,000 barrels in 1979 to 376,000 barrels in the first part of 1980.

Since this fraud has had a significant public impact on consumers, could you further describe the cease and desist order which

DOE is developing in an attempt to halt the continuing and apparently increasing miscertification violations?

When will the first cease and desist order be issued, if you have any idea?

Ms. ROLLINS. I would like to say that, hopefully, in a number of days. We would like to have had it developed well before this morning. As is often the case in the Department, we have a need to coordinate and insure that everybody is satisfied with the process.

More important, in my belief, is that the process has to be scrutinized and that the order itself contain the facts which allows it to survive an administrative review. I think that is the crucial element which delays our process of this cease and desist order.

Mr. COLEMAN. It is really an application of a regular enforcement tool we have had for some time which we call a remedial order for immediate compliance.

The problem with doing that generally is that you are ordering someone to change their conduct immediately prior to the completion of any administrative or judicial proceedings.

As the chairman will appreciate, a remedy of that kind is one which must be used sparingly because of reasons of due process and general conceptions of fair play.

We think, though, that in appropriate cases it is something we can use and we are moving to consider its use in cases such as the stripper certification violations.

Mr. ECKHARDT. Of the 18 defendants convicted in crude reseller prosecutions to date, only one has received a sentence longer than 6 months, and that was for 2 years.

Considering the rather light fines and the infrequency of the fines, do you believe it will be an effective determinant to have cease and desist orders utilized as a means of stopping this?

Mr. COLEMAN. It adds to the tools we have. Of course, we have nothing to do with the handling of a criminal case other than to give it to the Justice Department and urge them to act on it. Sentences are entirely the prerogative of the judge in a Federal court. However, I do believe our activities have contributed to deterring activity of this kind.

We also have been successful in recovering the dollars of overcharges involved and have obtained civil penalties related to a number of criminal dispositions. We would like to see stiffer sentences in some of these cases as well and we may obtain that.

For example, in the Houston area, where the U.S. attorney working with us has identified many of these cases, one of the early cases was dismissed by a Federal judge on a legal question. It sort of held up the prosecution of some of those cases.

That was appealed to the fifth circuit. Argument has been held. We hope we will get a favorable decision in that case, and more of those cases can go on to trial and we will be pressing for tough criminal dispositions.

Mr. ECKHARDT. Mr. Secretary, from 1973 to 1979 crude production in the lower 48 States, including OCS, dropped from 9 million barrels per day to 7.2 million. Average annual decline was just over 300,000 barrels per day. The decline was maintained in 1979.

During this same period, the price of new crude oil went from an average of $3.89 in 1973 to $13.02 in May 1979, the last month before accelerated decontrol began, a 235-percent increase.

Drilling rigs increased 64 percent during this same timeframe from an average of 1,194 in 1973 to 1,960 in May 1979.

I recognize that the very fact of a decrease in production may require an increase in an endeavor to find oil. However, at the same time I feel that there can be a situation in which the increase in price above a certain point has very much of a declining return, particularly if that increase in price rapidly outruns the opportunity to obtain new techniques and technological means of recovering oil.

I am wondering whether it is desirable simply to throw dollars after more production at the rate it has been done under our present policy, particularly since June 1 and thereafter of 1979.

Secretary DUNCAN. The decisions to drill more oil wells in the United States are decisions made by the private sector. They are people who get the drilling opportunities and make the decisions to invest their money to try to find more oil. I think it is empirically desirable that we do everything we can to find more oil in this country, and that means more drilling.

What we should do is to engender policies which encourage that. We have had a dramatic response in part attributable to decontrol, or significantly attributable to decontrol, which is causing that right now.

We have a very substantial decline curve, and you have just alluded to that in the comments you made. That varies significantly by company.

If you look at the Lower 48 States, the decline curve we are realizing is very worrisome. I hope we find major or new discoveries of oil in America–offshore, over in Alaska, or wherever—but we simply cannot predicate our energy policy on that.

In my judgment what we have to do are the very things we are doing—to emphasize supply in all forms and emphasize conservation.

Mr. ECKHARDT. Without objection, I should like to insert in the record at this time a table showing the relation between new oil price and rig count, change in rig count per dollar of price increase, January 1974 to April 1980.

[The table referred to follows:]

RELATION BETWEEN NEW OIL PRICE AND RIG COUNT/
CHANGE IN RIG COUNT PER DOLLAR OF PRICE INCREASE
January 1974 - April 1980

PERIOD	MONTHS	PRICE CHANGE AMOUNT	PRICE CHANGE PERCENT	CHANGE IN RIG COUNT AMOUNT	CHANGE IN RIG COUNT PERCENT	CHANGE IN RIG COUNT ANNUAL RATE	CHANGE IN RIG COUNT/ DOLLAR PRICE INCREASE
Jan. 74 - Jan. 76 New oil price uncontrolled Increase without interruption Pre-EPCA Policy Certainty	24	$ 3.17	32.3%	+330	24.6%	+11.8%	+ 106.6
Feb. 76 - Apr. 76 Beginning of EPCA Uncertainty Controlled new oil price	2	$ 0.05	0.4%	-114	-7.3%	-35.9%	-2280.0
Apr. 76 - Nov. 78 EPCA Controls Policy Certainty Prices fluctuating down 1976-77, then up steadily 1978	31	$ 1.01	8.0%	+876	59.2%	+19.7%	+ 867.3
Nov. 78 - Apr. 79 EPCA Controls Policy Uncertainty	5	$ 0.41	3.3%	-413	-17.9%	-37.0%	-1007.3
June 79 - Apr. 80 Steeply rising uncontrolled price - "newly discovered" Policy Certainty	10	$15.73	88.0%	+683	34.3%	+42.3%	+ 43.5

Mr. ECKHARDT. Mr. Dannemeyer?

Mr. DANNEMEYER. I was not here when the opening comments were made by the chairman. I came in shortly afterwards.

In your comments, you made reference, on page 2, to the direct energy contribution when inflation rose from an annualized rate or 6.6 percent average points, indirect contribution increased to 8.9 percentage points on the CPI.

I don't expect you and I can resolve this difference this morning. However, it is interesting to note that two nations in the world which import better than 90 percent of their oil—West Germany and Japan—are experiencing inflation rates just under 5 percent today.

I mention that because the basic cause of inflation is something we should all understand. I think we should understand that the basic cause of inflation in this country is not the increase in energy costs from OPEC or domestic decontrol. The primary cause of inflation in this country is the debasement of the currency of this country, by the action of the Congress of the United States, over the last 25 years controlled by the Democratic Party, and which in the last 10 years has engaged in deficit spending to the tune of $300 billion, financed essentially by paper dollars. That debasement of the currency is the principal cause of inflation.

Mr. ECKHARDT. Wasn't there a Republican or two in there during the last 20 years?

Mr. DANNEMEYER. The Democrats have controlled the Congress continuously for the last 25 years, and the gentleman knows it. About 3 percent of the cause of inflation is approximately related to the increase in energy costs. I will grant the gentleman that. However, aside from that, I think it is important we put that matter into perspective.

I want to commend the Secretary on the philosophy of marketplace economics which he has espoused because I think it is needed and timely and it will be in the interest of the consumers of this country.

I notice on page 3 of your testimony you make reference to certain projections, and in the tables as well. In exhibit 2 [see p. 28] you talk about increased projected production.

The estimate in June 1980 is referred to. To what extent have you in your projections in June 1980 predicated production from a field in Kern County, Calif., my home State, of heavy oil where it is estimated to contain a reserve of 10 billion barrels sitting under the ground right now? Is any of the projected production of decontrol coming from that field?

Secretary DUNCAN. I will have to look at my backup data and get back to you to see to what extent that oil might have been included in that projection.

[The following response was received from Secretary Duncan:]

Yes. Our estimates of increased production due to decontrol take into account increased production of heavy oil due to the higher prices. Decontrol makes production in fields such as Kern County more economical.

Mr. DANNEMEYER. The reason I ask that question is a very sound one. An agency of this Government, the EPA, is standing on Federal regulations today saying we cannot produce from that field because of an interpretation of the Clean Air Act. The producers want to produce steam because you have to inject steam underground to heat the oil in order to be able to pump it out. EPA, in combination with the Air Resources Board of California and the local air control district interpreting the Federal and State laws, have produced a debacle where three agencies of government are sitting staring at one another, arguing over who has jurisdiction and as a result we have not begun production from that field yet.

I would hope that in your position as head of the Department of Energy you can nudge the system along and we can begin producing from that field.

Secretary DUNCAN. As you indicate, I do not have responsibility for EPA or those kinds of actions, but I do think I have a responsibility to do what I can to contribute to the energy supply. I do nudge when I think it is appropriate to see we have the right balance between environment and supply.

I can assure you that I am interested in that kind of situation, and I do express myself and give my opinions in that kind of situation.

Mr. DANNEMEYER. I am encouraged by your comments with regard to the increase——

Secretary DUNCAN. The Energy Mobilization Board is the kind of mechanism which would contribute to that kind of situation.

Mr. DANNEMEYER. Let's hope they will be successful in breaking the impasse among these three agencies. It boggles the mind when you sit down and listen to what is going on in the name of conservation as well as many other things, and in the meantime we are not producing from that field.

I am encouraged by your philosophical bias, if I may express it that way, as a means of increasing supplies of oil in this country.

If it is appropriate I would like to ask this: Since the present law states we will keep price control on natural gas until 1980, do you share a similar opinion, that if we decontrol the price of natural gas we can have additional production from drilling, exploration, and seismic activity which will result in additional production of natural gas.

Secretary DUNCAN. The Natural Gas Policy Act does envision phased decontrol of new gas between now and 1985. We are seeing an increase in gas prices. The Natural Gas Policy Act of 1978 discontinues in a way the competition between intrastate and interstate gas pricewise, and as a result we have seen a dramatic increase in the amount of gas. We have decontrolled the deep gas, which is a significant part——

Mr. DANNEMEYER. Below 15,000 feet.

Secretary DUNCAN. Yes.

Mr. DANNEMEYER. Do you have any figures which indicate how we have increased production of natural gas as a result of phased decontrol?

Secretary DUNCAN. Natural gas reserves—I will have to check my memory on this statement to be precisely correct—but natural gas reserves increased for the first time in a long time last year, I believe. That is attributable to the Natural Gas Policy Act, the fact we are moving into the phased decontrol of gas.

I believe, as a matter of philosophy, that you have to price energy at its replacement cost because if you do not it means you will be importing more foreign oil.

I think the national security implications, economic implications, and the social implications of continued dependence on foreign oil are so onerous we cannot tolerate it.

Mr. DANNEMEYER. I agree with you.

Secretary DUNCAN. That is why I have been so pleased that, beginning in 1978, with legislation like the Natural Gas Policy Act and the other four bills which were the first part of our current energy program, the Fuel Use Act, and so forth, that has begun to move us toward those kinds of policies.

The President's decision to decontrol, I think, was a courageous decision. I think it was an absolute vital and necessary decision if we are going to give the right incentives to conservation, to give the right amortization timeframe to conservation investments, and to make commercial the development of alternatives which until now have not been commercial.

You heard Mr. Gore say a moment ago that we were working with coal gasification and coal liquefaction years and years ago. Nothing happens. The reason for that is that it was not commercially viable. Those things today are commercially viable and they are terribly important. That is a function of decontrol. It enables us to do the kind of thing we must do.

Mr. DANNEMEYER. On the basis of your excellent philosophical statement, do I understand you favor the immediate decontrol of natural gas prices?

Secretary DUNCAN. I didn't say that. I say we are doing that with the Natural Gas Policy Act.

Mr. DANNEMEYER. But we have a huge natural gas field in the southern part of this country which is estimated to contain fantastic reserves, at about a depth of 11,000 feet. We have deregulated natural gas discovered 15,000 feet deeper. It is logical that the people who would be willing to invest money are not so much inclined to dig a hole to see whether they can get gas from 11,000 feet. Why? Because the price will be controlled. We don't have the incentives in place yet to develop that gas field.

I would hope you would tell us this morning that you are in favor of decontrolling natural gas prices so we can get on with the exploration which will additionally supply what we badly need in this country, natural gas.

Secretary DUNCAN. The position of the administration today is that with the Natural Gas Policy Act, which does envision the decontrol of new gas, we have already moved with deep gas, 15,000 feet and below, in decontrol. That is our major decontrol effort, and that is the position of the administration. It is not up to me to change that position and I don't want to say anything which would change it.

Mr. DANNEMEYER. Reference was made earlier to the fact that American consumers have been asked to pay some additional costs for gas, and you referred to 5.5 cents a gallon as a result of decontrol of domestic oil on a phased basis.

Is it not accurate to say that the question is not whether or not American consumers will pay an increased cost for gasoline but the question is who will get the increase? Are we going to continue to send that increased cost to the OPEC nations and elsewhere or are we going to pay that increased cost to domestic producers in this country? If we pay it to domestic producers in this country at least our taxing system has the ability to reach those people who receive the revenue from that production, at least to the extent they have a profit, and no doubt they do. Is that a correct statement?

Secretary DUNCAN. Yes. The price of gasoline has moved up. It has moved up more sharply than you and I would have liked.

However, we are conserving gasoline today at a rate which other nations around the world consider dramatic. We far exceeded their expectations.

We are finding the price demand elasticity is much higher than we anticipated. Though admittedly some of the gasoline conservation is attributable to current economic conditions, we are also seeing people buy more efficient automobiles at a more rapid rate than anyone had anticipated.

We have seen that one of the big three auto manufacturers has said they will exceed the 1985 mileage target of 27.5 and will achieve 31. These things are being built permanently into our infrastructure.

What will cost the most about our having controlled the price of oil as long as we did, the price of energy as long as we did, is the fact we will have to make massive capital investments to change

the infrastructure of this country, to get more energy-efficient industry. Industry has already begun to move in a very successful way. Consumers are beginning to move toward buying more energy-efficient automobiles. A huge amount of money is being spent today on weatherization of houses. Even after economic recovery, these things will linger in the economic infrastructure of this Nation.

It is very desirable, and without doing those kinds of things we, as a nation, will not continue to be as viable in 10 years' time or 20 years' time as we are today.

We cannot expect to have a strong currency, as indicated earlier. These things are absolutely essential in my judgment for the future of America.

The price of gasoline today has gone up very high. I wish it had not gone up as high. However, if you compare the price of gasoline in this country with any other industrialized country of the world, you will see that it is far lower. The average price today might be $1.23 compared to prices of over $3 in many of the industrialized countries of the world.

One of the things I am exposed to constantly when I go to international meetings, meetings of the International Energy Agency, for example, is whether there is any possibility in our country that there might be some discontinuance of the move toward decontrol by September 1981. They say that is very important.

Mr. DANNEMEYER. Thank you.

Mr. ECKHARDT. Since there has been a bit of deja vu brought into this hearing——

Secretary DUNCAN. What does that mean?

Mr. ECKHARDT. We have been there before.

I would like to inject in this hearing a little of the hearing in 1974 in which Treasury Secretary Shultz was testifying:

Mr. WAGGONNER. Mr. Secretary, I share that speculation with you that leads me to say that we have to be very, very careful that we don't engage in overkill as we pursue this overplayed windfall profits idea.

Could you tell me a little bit more about how did you arrive, and I recall that you said this was a ball park figure, at this $7 per barrel as a leveling off price, as a base point?

Secretary SHULTZ. Well, we tried to get people's estimates of what price would likely bring in relatively large quantities of oil in the long run. Shale oil seems to be a candidate for very large quantities and people's estimates of what it would take to develop this shale vary quite a lot. They have gone up.

Recently we have heard some estimates on the order of $8 to $8.50 and some half that.

But as we tried to get a sense of this situation, these $7 figures seem to fit that reasonably well. As I have said before, we don't put the $7 figure out there as though it is some kind of a fact that having been established is going to determine a great deal of other things. It is a starting point and we have tried to design the windfall profits tax so that if we are wrong the fact that we are off doesn't do any great damage.

Mr. ECKHARDT. Mr. Lent?

Mr. LENT. Thank you, Mr. Chairman, and Secretary Duncan. I am pleased to welcome you here as well as your colleagues here today. We appreciate your testimony and time involved.

I didn't know whether the chairman on his own time wanted to give Secretary Duncan an opportunity to comment on the testimony that he read earlier from another witness as of an earlier time.

Mr. ECKHARDT. The Chair will give the gentleman whatever time he needs. Whosever time it is, we will be glad to hear him.

Mr. LENT. I am one of those who has long supported decontrol of domestic crude as a major and necessary step toward reducing this Nation's dependence on imported oil, by providing the necessary incentives to increase domestic production. I still adhere to that basic position and sincerely hope that the most recent somewhat gloomy predictions of the Department of Energy on the likelihood of new discoveries of domestic crude are proven wrong.

Mr. Secretary, my question is this: Are we not premature today in attempting to examine the effects of decontrol—which is only partially implemented—particularly in light of the fact that there is a 4- or 5-year delay in development from the seismic exploration to the drilling to the production phase?

I would like you to comment on this, with the possibility in mind that perhaps it is unrealistic really for us to expect the major result of the incentives of decontrol to have appeared until sometime after the 1985 date that is being used.

Secretary DUNCAN. I think that is a valid observation. I indicated earlier that, in some of the calculations we were making and the differences in our position and the position of the subcommittee, we were attributing a degree of precision to the assumptions that went into these calculations which far exceeded the possible accuracy of those numbers. In other words, we were trying to get very precise arithmetic results from a set of assumptions which were not that certain. We were trying to get a degree of precision in the results of those calculations which should not be inherent in the numbers used in your base assumptions because we cannot predict what will happen between now and 1985 that accurately. We cannot really predict what the impact on production of enhanced oil recovery will be.

I have seen some people who are very optimistic, and I have seen some people who are less optimistic. We cannot predict exactly what the decline curve is going to be. In the Lower 48 States, what I have seen recently does not encourage me too much. I hope we can get some substantial new discoveries, and I am glad we have policies in place which are inducing a tremendous amount of drilling activity to try to find that oil.

However, we cannot add to the intrinsic resource base. What is there is there. No one else can change that; not the Department of Energy nor the Congress. All we can do is to try to promulgate policies which insure that we can explore that base and also develop alternatives. That is what we are trying to do.

Basically, I think your thrust is on target. I think it is premature to make some judgments about this which are more finite, more crisp than the assumptions you would have to use in order to make those judgments. There are just a lot of variables and a lot of unknowns.

I am satisfied that we are making substantial progress in conservation and in supply, both in the conventional and the unconventional sense. That is what we need to be doing in my judgment.

Mr. LENT. You indicate in your testimony that drilling activity is up 33 percent over the first 6 months of 1979. Can you give the subcommittee some idea as to whether this increased activity is

within existing fields or whether it constitutes the possibility of new discoveries?

Secretary DUNCAN. That is a very important question—is it developmental or exploratory? It is a good question and I am sorry I cannot give you a precise answer on that.

To the extent it is developmental and you are developing existing reserves, there is more certainty in what you will be able to find.

You can get a range of opinion in talking to people about what an expectation should be for more domestic production. Some of the major companies tend to be rather pessimistic about it.

Some of the independent operators tend to be very optimistic about potential for new discovery. My own view is that, if we can maintain existing production levels we will have done rather well. I hope that is not too pessimistic.

Mr. LENT. Do you have any doubt in your mind that that 33 percent increase in drilling this year over 1979, the first 6-month period, would not have occurred had decontrol not been put into effect?

Secretary DUNCAN. I think it is attributable to decontrol.

Mr. LENT. Mr. Gore asked a question about his own area. I would like to have the same liberty, somewhat off the base of the hearing.

Mr. Secretary, as you know I and several other Members of Congress had the General Accounting Office do a study of the DOE allocation program in light of the supply interruption in gasoline last summer which resulted in very long lines in Long Island and other parts of the country while at the same time drenching other areas of the country with unneeded product.

In a highly critical report the GAO recommended many changes in the Department of Energy gas allocation program, one of which was the use of a rolling base period to prevent the kind of situation where as in my own district in Long Island we were severely shortchanged, resulting in long lines at the pump.

My understanding is that the Department of Energy has rejected this recommendation by the GAO. I would like to know why if that is so.

Ms. ROLLINS. Congressman Lent, I will speak to that. The Department this past year, and almost every time as part of the examination of the aftermath of a shortage, does consider the issue of a rolling base period. This time around, especially after the experience of last spring when I think we all, and this includes GAO, believed that part of what exacerbated the problem of last spring's shortage was the fact we recently changed relationships within our allocation base period. That required a reestablishment of the relationship of supplier to purchaser. That was so great it further confused the system.

My belief and that of the people who advised me is that a rolling base period requires a constant readjustment of relationships, which I do not believe the system can take in a shortage.

I recognize that the best allocation base period is yesterday, so any time you have an allocation program you are looking for the most recent base period.

However, to have an expectation that will constantly change, and to expect the system to be able to provide for the impact of

that change, is in my experience unreasonable. It was for that reason I rejected that recommendation.

A number of other recommendations made by the GAO are contained in the proposed regulation for gasoline allocation.

Mr. LENT. I am aware of that and I appreciate that fact. However, I was concerned that gasoline allocation for the peak months of gasoline usage in an area like Long Island were predicated upon a base period which was almost irrelevant to summer usage experience.

What is DOE going to do to insure that these areas, such as Long Island, do not again experience that sort of supply interruption?

Ms. ROLLINS. We have proposed a number of changes to provide flexibility to the system which does not require us to go as far as a rolling base period. One of those is to propose that the redirection authority which is in both the Administrator of the ERA as well as the Governor not be capped by a limitation of 30 percent of the supplies available in the State but be allowed to go up.

Therefore, if Long Island has a problem and a shortage and either comes to the Governor of the State or the Administrator of the ERA seeking assistance, that assistance would be provided and may not be as limited as it is today.

The other thing in my experience that has really worked well, certainly better at a local level than does the Federal system, is simply the very careful and sometimes creative use of the State setaside. Our experience with New York has been they use the State setaside very well in their allocation to counties, though that may be a problem if there is no inclination on the part of the Governor to shift what is in Nassau County or elsewhere if the need dictates.

Further, in our unusual growth adjustment regulation which is now in effect, Long Island has indicated, as have a number of other States, the experience of a driving surge during the summer tourism season, and the adjustments we are now using tend to favor those who are in the sunbelt or in the West.

I am very much aware of that. I have come up with a proposal which states we do not measure the unusual growth during the summer months but from year to year over a base. I sincerely believe that will relieve some of Long Island's problems if that proposal is adopted.

Mr. LENT. What was the terminology you used to describe that system?

Ms. ROLLINS. Unusual growth adjustment.

Mr. LENT. Unusual growth adjustment?

Ms. ROLLINS. That is correct.

What the rule had formerly been is that you measure the period of unusual growth during the summer months, and the reason those months were selected was because there were months where we had actual data in the Department.

Of course, we are older now. Rather than simply confining ourselves to the summer months we can measure an entire year.

Therefore, if a service station has surged because a new community has grown or because there has been some new business, then that growth itself would be judged under the criterion of this

unusual growth adjustment and the proposal would be far more liberal to places like Long Island's coast than has been the case.

Mr. LENT. I hope so. We have not had any growth in population. We use more gasoline certain months of the year than we do other months.

Ms. ROLLINS. I understand that.

Mr. LENT. There is no growth per se. The population is the same.

Ms. ROLLINS. I didn't mean growth in population. It means growth in demand at the individual service station, which can be occasioned by tourism or any number of things.

Mr. LENT. One question on miscertification.

On page 9 of your prepared statement you indicate that as of this month 302 of the estimated 412 crude resellers had filed the self-reporting form, and that "action is currently being taken to insure that every crude reseller required to file does so."

Could you describe this current action?

Ms. ROLLINS. Yes. We have done a number of things. First, where we have not received a filing and we believe we are dealing with a reseller, we have written individual letters so much as to say "Hello. How are you? Why haven't you filed?"

Under our regulations failure to file is a violation of the regulations. To the extent we think we have given those we believe to be resellers adequate time to respond to our letters we are also issuing enforcement actions.

Mr. LENT. What are the penalties?

Ms. ROLLINS. Failure to file carries with it a penalty—it is a civil penalty. We are also permitted to freeze prices. The maximum civil penalty established by law for violations of regulations, including failure to file required reports related to crude oil resellers, is $20,000 for each violation.

Mr. LENT. I think the claim is that the civil penalty is not effective. It really does not have the effect of enforcement.

Ms. ROLLINS. There will always be that debate. My belief, especially with regard to the question of failure to file, is that generally it takes a glare of publicity to get a business person to do what he is required to do by either Federal or State law.

Mr. LENT. I have no further questions, Mr. Chairman.

Mr. ECKHARDT. We thank the witnesses very much for your testimony here this morning. You have been most helpful to the subcommittee.

We shall leave the record open, without objection, so we may try to reconcile the differences in figures between the agency and the subcommittee.

Again I thank you for your testimony.

Secretary DUNCAN. Thank you, Mr. Chairman.

Mr. ECKHARDT. The hearing is adjourned.

[The following correspondence was received for the record:]

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
WASHINGTON, D.C. 20515

August 1, 1980

Honorable Charles W. Duncan
Secretary of Energy
Department of Energy
James Forrestal Building
1000 Independence Avenue, S.W.
Room 7A257
Washington, D.C. 20585

Dear Mr. Duncan:

In the Subcommittee's hearing of July 30, 1980, on the cost of crude oil decontrol, I asked a series of questions regarding the differences between the DOE best estimate and that developed by our Subcommittee staff. Specifically, I suggested that these differences were owing to very particular defects of the DOE methodology, which I enumerated and sought comment on from you or the other DOE witnesses who accompanied you. The matter was not resolved in a satisfactory manner at the hearing, and we agreed to seek such a resolution for the record after the hearing.

First, there was the matter of our differing estimates of the incremental cost of accelerated decontrol for the period June-December 1979. The DOE estimate was $1.3 billion, approximately $500 million (or about 28%) below the Subcommittee estimate of $1.8 billion. I suggested that virtually all of this difference was accounted for by the fact that DOE had omitted from consideration any estimate of the impact of the Adjusted Base Production Control Level Amendment (as distinguished from the Marginal Well Rule) for 1979.

The conclusion that this factor was omitted was drawn from a reading of the third paragraph of the letter from Hazel Rollins to me, dated July 23, 1980, and attached to your testimony. The omission was subsequently verified in discussions between our respective staffs. I therefore request that you provide for the record a revised best estimate of the cost of decontrol in 1979, which includes the DOE's estimate of the cost impact of this amendment.

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The second line of questioning related to the projected cost in 1980-81 of the Newly Discovered Crude Oil rule. The impact of this rule from January 1980, through September 1981, was estimated by DOE at approximately $4.6 billion, while the Subcommittee staff analysis would place this cost at a much higher figure--about $10.8 billion for the same period.

Again, I believe the difference is readily accounted for--in this case by DOE's underestimate of the volumes of upper tier crude oil which will be shifted to market pricing under this rule. The volumes used in the DOE estimate are from a projection made in October 1979 by the Office of Price Regulations and Emergency Planning of the Economic Regulatory Administration, in the Draft Regulatory Analysis of Rulemaking on Phased Decontrol of Upper Tier Crude Oil. However, the actual volumes shifted to market pricing under this rule during the first four months of 1980 have been very much larger than those projected to be shifted under the rule in October 1979.

For the first four months of 1980, actual first purchases of "newly discovered oil" (including both the shift from the upper tier and incremental new oil) have averaged 174% of the volumes projected in October. After allowing for reasonable estimates of incremental new production, this implies an actual shift of upper tier oil to market pricing for the first four months of 1980 that is almost 20 million barrels more than the DOE projection would imply, at an additional consumer cost of about $493 million. If the actual volumes for June 1979-April 1980, are projected to September 1981, the volumetric shift to newly discovered oil for the entire 1980-81 period will be vastly higher than DOE projects and the consumer cost will be $10.8 billion rather than $4.6 billion.

Therefore, I also request that you submit for the hearing record the DOE recalculation of the cost of decontrol for the 1980-81 period, using your best current estimate of the volumes likely to be shifted to market pricing under the Newly Discovered Crude Oil rule.

Sincerely,

Bob Eckhardt

Bob Eckhardt
Chairman
Subcommittee on
Oversight and Investigations

cc: Ms. Hazel R. Rollins
Mr. Robert Reinstein

Department of Energy
Washington, D.C. 20461

15 AUG 1980

Honorable Bob Eckhardt
Chairman, Subcommittee on
Oversight and Investigations
House of Representatives
Washington, D.C. 20515

RECEIVED

Dear Mr. Chairman:

This is in response to your recent correspondence requesting a resolution of differences between the Department's estimates of the impacts of domestic crude oil decontrol and estimates of your subcommittee staff.

Staff of the Economic Regulatory Administration (ERA) has reevaluated the estimates attached to my letter of July 23, 1980, in light of the comments contained in your most recent letter. We have concluded the following:

(1) Your staff is correct in noting the absence of an adjustment for the Adjusted Base Production Control Level Amendment (ABPCL) in the 1979 estimates. This adjustment, which does not appear in any of the reported data used for our estimates, has been estimated by ERA Staff to be about 400 MB/D for June 1979 and to decline at the same rate as other Lower Tier production. When this adjustment is made for our 1979 impact estimates, the resulting cumulative cost for 1979 is about $1.9 billion, compared with our earlier estimate of $1.3 billion and the subcommittee's $1.8 billion. We believe this satisfactorily resolves your first point.

(2) The volumes reported as Newly Discovered Oil for the first four months of 1980 are indeed higher than those published in our earlier regulatory analysis and used for the estimates in my July 23 letter. The ERA staff has reexamined the production assumptions underlying these estimates. Although we now have revised estimates consistent with the early 1980 data, we do not agree with the subcommittee staff analysis on the impact of this rule. Our new estimates show total Newly Discovered Oil production about 240 MB/D higher in September 1981 than our earlier estimates, with the cumulative cost of the rule in 1980-1981 amounting to about $6.7 billion, rather than our earlier estimate of about $4.6 billion.

However, this increase is partially compensated for by a decrease in the estimated impact of phased decontrol of Upper Tier Oil, due to the fact that less oil would remain in the Upper Tier because of the greater shift under the Newly Discovered Oil rule. The higher subcommittee estimates may be due to failure to account for the normal decline of production of Newly Discovered Oil from reservoirs discovered before 1979, which accounts for a significant portion of total Newly Discovered Oil today but will make a lesser percentage contribution in 1981.

In summary, we have revised our estimates of the total impact of crude oil decontrol to take into account adjustments for the ABPCL Amendment and higher Newly Discovered Oil production. The revised 1979 impact estimate is $1.9 billion and the revised 1980-1981 impact estimate is $47.0 billion, so that the total estimated impact for June 1979 through September 1981 is about $48.9 billion rather than the $47.4 billion given in my July 23 letter. Enclosed are revised tables corresponding to the tables attached to my earlier letter and described therein. It should be noted that these estimates do not take into account the reduction in demand due to higher prices over the short term, and therefore the actual impacts will be lower than these estimates.

If we can be of further assistance, please let us know.

Sincerely,

Hazel R. Rollins
Administrator
Economic Regulatory Administration

Enclosures

ESTIMATED IMPACTS OF CRUDE OIL DECONTROL IN 1979

TABLE 1
ACTUAL REFINER ACQUISITION VOLUMES WITH CRUDE OIL RULES

MONTH	LOWER TIER	UPPER TIER	MARGINAL WELL OIL	STRIPPER OIL	NEWLY DISCOVED OIL	HEAVY OIL	TERTIARY OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC	IMPORTED OIL	TOTAL
JAN79	2838	2612	0	1282	0	3	0	104	1087	8126	7013	15135
FEB79	2752	2477	0	1312	0	0	0	114	1238	8293	6958	15252
MAR79	2718	2958	0	1352	0	0	0	99	1078	8196	6751	14947
APR79	2640	2559	0	1430	0	0	1	93	1320	8452	6767	15220
MAY79	2615	2947	0	1460	0	0	1	123	1320	8466	7038	15504
JUN79	2345	3122	467	1531	47	0	1	105	1075	8236	7403	15638
JUL79	2212	3101	488	1503	98	0	2	110	1283	8300	7199	15544
AUG79	2087	2990	531	1668	120	64	1	114	1213	8266	7840	16181
SEP79	1949	2850	636	1592	155	211	0	116	1252	8132	6729	14861
OCT79	1876	2967	666	1666	199	269	0	110	1371	8475	7194	15669
NOV79	1801	2847	649	1672	219	291	11	114	1323	8349	7351	15700
DEC79	1799	2895	630	1635	271	305	6	110	1376	8401	7293	15694

UNITS: THOUSAND BARRELS PER DAY
NOTE: ALL DATA FROM ENTITLEMENTS PROGRAM (FORM ERA-49), EXCEPT MARGINAL WELL DATA (INCLUDED IN UPPER TIER RECEIPTS) IS FROM FIRST-PURCHASER PROGRAM (FORM ERA-182).

TABLE 2
ACTUAL REFINER ACQUISITION COSTS WITH CRUDE OIL RULES

MONTH	LOWER TIER	UPPER TIER	STRIPPER OIL	NEWLY DISCOVED OIL	HEAVY OIL	TERTIARY OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	IMPORTED OIL	ADJUSTED REFINER COST
JAN79	6.20	13.12	15.18	.00	.00	.00	13.51	13.15	15.47	13.11
FEB79	6.25	13.30	15.49	.00	.00	.00	14.15	13.51	15.68	13.42
MAR79	6.26	13.32	15.47	.00	.00	.00	14.36	14.10	16.39	13.70
APR79	6.33	13.44	17.11	.00	.00	11.57	14.95	14.77	17.55	14.52
MAY79	6.35	13.55	17.33	.00	.00	12.05	15.92	15.53	18.96	15.00
JUN79	6.47	13.66	20.29	22.23	.00	13.48	16.06	16.48	21.08	17.00
JUL79	6.46	13.76	23.98	25.87	.00	17.16	20.13	18.97	23.67	18.98
AUG79	6.58	13.86	25.17	28.81	16.90	16.76	21.16	21.38	23.98	19.75
SEP79	6.54	14.01	26.48	30.56	17.38	19.43	21.37	19.53	25.06	20.19
OCT79	6.65	14.09	28.28	32.78	18.34	19.25	21.28	20.71	25.85	20.68
NOV79	6.59	14.26	29.99	33.67	19.78	23.34	24.84	21.81	27.82	22.84
DEC79	6.88	14.48	31.83	34.73	20.43	28.44	28.49	22.89	28.91	23.63

UNITS: DOLLARS PER BARREL

TABLE 3
ESTIMATED BASE REFINERY ACQUISITION VOLUMES

MONTH	LOWER 48	UPPER 48	STRIPPER OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC	IMPORTED OIL	TOTAL
JAN79	2838	2812	1240	184	1697	8133	7913	16135
FEB79	2752	2827	1312	124	1738	8295	6958	15252
MAR79	2718	2958	1258	99	1679	8196	6751	14947
APR79	2691	2968	1238	93	1329	8402	6767	15220
MAY79	2636	2946	1240	123	1329	8414	7038	15504
JUN79	2812	2792	1238	125	1279	8246	7013	15259
JUL79	2781	2712	1246	119	1243	8388	7138	15526
AUG79	2632	2634	1268	114	1213	8261	7049	15310
SEP79	2729	2644	1258	116	1252	8132	6729	14861
OCT79	2722	2599	1248	118	1271	8175	7194	15369
NOV79	2713	2537	1279	114	1323	8319	7381	15700
DEC79	2629	2584	1239	110	1276	8101	7293	15394

TABLE 4
ACTUAL AND ESTIMATED BASE REFINERY ACQUISITION COSTS

MONTH	LOWER 48	UPPER 48	STRIPPER OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	IMPORTED OIL	BASE REFINER COST
JAN79	5.21	13.12	15.18	13.51	13.15	15.47	13.11
FEB79	4.75	13.38	15.48	14.19	13.31	15.68	13.42
MAR79	4.26	13.32	15.47	14.84	14.18	16.39	13.78
APR79	4.33	13.44	17.11	14.95	14.77	17.58	14.52
MAY79	4.35	13.58	17.43	15.92	15.33	18.96	15.40
JUN79	4.47	13.66	20.29	16.06	16.58	21.80	16.76
JUL79	4.61	13.76	23.48	20.13	18.97	23.67	18.27
AUG79	4.58	13.84	25.67	21.16	21.38	23.98	19.30
SEP79	4.56	14.01	26.58	21.37	19.53	24.86	19.53
OCT79	4.65	14.09	28.28	21.20	20.71	25.05	19.97
NOV79	4.59	14.25	29.49	26.84	21.81	27.82	21.26
DEC79	4.58	14.48	33.43	28.65	22.25	28.91	22.64

TABLE 5
IMPACTS OF CRUDE OIL RULES DURING 1979

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN79	13.51	13.51	.00	.0	.0	.0
FEB79	13.92	13.92	.00	.0	.0	.0
MAR79	13.78	13.78	.00	.0	.0	.0
APR79	14.52	14.52	.00	.0	.0	.0
MAY79	15.40	15.40	.00	.0	.0	.0
JUN79	16.96	17.00	.04	.0	.0	.0
JUL79	18.37	18.58	.21	.5	119.7	119.7
AUG79	19.38	19.75	.37	.9	146.8	266.6
SEP79	19.53	20.14	.61	1.4	186.3	452.7
OCT79	19.97	20.66	.71	1.7	269.8	722.5
NOV79	21.45	22.84	1.39	3.2	345.8	1066.3
DEC79	22.40	23.63	1.23	2.8	473.3	1913.5

ESTIMATED IMPACTS OF CRUDE OIL DECONTROL IN 1980 AND 1981

TABLE 6
BASE DOMESTIC PRODUCTION ESTIMATES

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC
JAN80	2581	2779	1609	130	1460	8531
FEB80	2552	2776	1611	130	1460	8587
MAR80	2509	2769	1621	130	1460	8489
APR80	2496	2765	1632	131	1460	8484
MAY80	2469	2750	1643	130	1460	8452
JUN80	2441	2751	1654	130	1460	8436
JUL80	2414	2740	1665	130	1460	8409
AUG80	2388	2747	1676	130	1460	8397
SEP80	2361	2737	1687	130	1460	8374
OCT80	2335	2732	1698	131	1460	8355
NOV80	2309	2727	1709	130	1460	8335
DEC80	2284	2722	1721	130	1460	8315
JAN81	2258	2716	1732	130	1460	8296
FEB81	2233	2711	1743	130	1460	8277
MAR81	2209	2706	1755	130	1460	8259
APR81	2184	2701	1767	130	1460	8242
MAY81	2160	2696	1778	130	1460	8224
JUN81	2136	2691	1790	130	1460	8206
JUL81	2113	2686	1802	130	1460	8187
AUG81	2089	2681	1814	130	1460	8171
SEP81	2066	2676	1826	130	1460	8154
OCT81	2043	2671	1838	130	1460	8138
NOV81	2021	2665	1850	130	1460	8122
DEC81	1998	2660	1863	130	1460	8091

TABLE 7
ADJUSTED DOMESTIC PRODUCTION ESTIMATES

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL *ETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC
JANUARY	1617	2831	3391	130	1374	8503
FEBRUARY	1762	2671	2631	130	1308	8501
MARCH	1756	2553	2979	130	1241	8501
APRIL*	1468	2555	3154	130	1175	8481
MAYBE	1463	2459	3013	130	1109	8461
JUNE	1337	2245	3646	130	1043	8442
JULY	1272	2122	3944	130	976	8444
AUGUST	1257	1977	4130	130	910	8404
SEPTEMBER	1195	1839	4511	130	844	8469
OCTOBER	1084	1703	4792	130	778	8483
NOVEMBER	1019	1585	5102	130	711	8497
DECEMBER	957	1419	5384	130	645	8511
JANUARY	895	1274	5631	130	579	8509
FEBRUARY	833	1131	5898	130	513	8507
MARCH	773	993	6142	130	446	8505
APRIL	713	852	6429	130	380	8504
MAYBE	652	711	6697	130	314	8503
JUNE	592	564	6970	130	248	8503
JULY	529	416	7247	130	181	8503
AUGUST	465	265	7527	130	115	8503
SEPTEMBER	402	113	7809	130	49	8503
OCTOBER	0	0	8376	130	0	8506
NOVEMBER	0	0	8376	130	0	8506
DECEMBER	0	0	8377	130	0	8507

TABLE 8
ESTIMATED BASE CASE DEFINED ACQUISITION VOLUMES

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL *ETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC	IMPORTED OIL	TOTAL RECEIPTS OR RUNS
JANUARY	2481	3779	1689	130	1440	8430	6792	15222
FEBRUARY	2452	3776	1611	130	1440	8427	7910	15415
MARCH	2429	3768	1681	130	1440	8364	6796	14670
APRIL	2396	3763	1632	130	1440	8362	5795	14156
MAYBE	2369	3758	1643	130	1440	8339	6178	14517
JUNE	2343	3753	1656	130	1440	8310	6547	14857
JULY	2314	3749	1645	130	1440	8297	6761	15058
AUGUST	2288	3742	1636	130	1440	8276	6846	15122
SEPTEMBER	2261	3737	1687	130	1440	8255	6820	15075
OCTOBER	2235	3732	1698	130	1440	8235	6619	14854
NOVEMBER	2209	3727	1709	130	1440	8215	6377	14592
DECEMBER	2184	3722	1721	130	1440	8196	6078	14274
JANUARY	2158	3716	1732	130	1440	8177	6038	14214
FEBRUARY	2133	3711	1743	130	1440	8154	5861	14015
MARCH	2109	3706	1755	130	1440	8141	5982	14122
APRIL	2084	3701	1767	130	1440	8122	6029	14151
MAYBE	2060	3696	1778	130	1440	8104	6199	14304
JUNE	2036	3691	1790	130	1440	8087	5977	14064
JULY	2013	3686	1802	130	1440	8071	6931	15001
AUGUST	1989	3681	1814	130	1440	8054	7906	15960
SEPTEMBER	1966	3676	1826	130	1440	8038	6973	15011
OCTOBER	0	0	6952	130	1440	8522	6299	14812
NOVEMBER	0	0	6936	130	1440	8506	6956	14862
DECEMBER	0	0	6921	130	1440	7991	6225	14216

TABLE 9
ESTIMATED BASE CASE REFINER ACQUISITION COSTS

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC OIL	IMPORTED OIL	TOTAL UNCONTR. OIL	AVERAGE REFINER COST
JANUARY	7.09	19.50	32.33	32.55	22.98	17.40	31.65	30.51	30.73
FEBRUARY	7.05	19.62	34.05	34.25	23.16	17.89	33.35	32.02	24.98
MARCH	7.11	19.73	34.06	34.26	23.21	18.02	33.36	31.95	24.68
APRIL	7.14	19.85	34.68	34.88	23.33	18.29	33.98	32.41	24.71
MAY	7.27	19.97	34.92	34.22	23.45	18.71	35.32	33.64	25.78
JUNE	7.27	15.59	35.25	35.45	23.57	18.68	34.85	33.66	25.67
JULY	7.33	15.21	35.29	35.49	23.69	18.93	34.99	33.14	25.98
AUGUST	7.39	15.33	35.99	36.19	23.81	19.12	35.29	33.78	26.44
SEPT	7.44	15.45	36.38	36.58	23.93	19.33	35.68	34.16	26.69
OCTOBER	7.50	15.58	36.61	36.81	24.06	19.54	35.91	34.31	26.83
NOVEMBER	7.56	15.70	36.92	37.12	24.18	19.75	36.22	34.56	26.95
DECEMBER	7.62	15.83	37.24	37.44	24.31	19.97	36.54	34.88	27.34
JANUARY	7.67	15.94	37.52	37.72	24.42	20.17	36.82	35.06	27.26
FEBRUARY	7.72	16.05	37.82	38.02	24.53	20.37	37.12	35.29	27.37
MARCH	7.77	16.16	38.11	38.31	24.64	20.58	37.41	35.58	27.71
APRIL	7.83	16.28	38.41	38.61	24.76	20.78	37.71	35.86	28.08
MAY	7.88	16.39	38.71	38.91	24.87	20.99	38.01	36.17	28.37
JUNE	7.93	16.51	39.01	39.21	24.99	21.21	38.31	36.41	29.19
JULY	7.99	16.62	39.32	39.52	25.10	21.42	38.62	36.87	29.37
AUGUST	8.04	16.74	39.63	39.83	25.22	21.64	38.93	37.16	29.68
SEPT	8.10	16.86	39.94	40.14	25.34	21.86	39.24	37.45	29.94
OCTOBER	8.15	16.98	40.26	40.46	25.46	22.08	39.56	38.46	30.46
NOVEMBER	8.21	17.10	40.58	40.78	25.58	22.30	39.88	38.76	30.76
DECEMBER	8.26	17.22	40.90	41.10	25.70	22.51	40.20	39.05	30.85

TABLE 10
REFINER ACQUISITION VOLUME ESTIMATES WITH CRUDE OIL DECONTROL

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC	IMPORTED OIL	TOTAL RECEIPTS OR RUNS
JANUARY	1717	2831	2391	130	1324	8493	6779	15272
FEBRUARY	1667	2691	2631	131	1388	8421	6994	15415
MARCH	1606	3593	2976	133	1291	8401	6278	14678
APRIL	1369	2591	3156	130	1175	8361	5776	14136
MAY	1303	2989	3410	130	1189	8361	6157	14517
JUNE	1237	2769	3666	130	1043	8362	6523	14885
JULY	1172	2127	3944	130	976	8344	6719	15058
AUGUST	1107	1977	4232	130	918	8356	6766	15122
SEPT	1045	1839	4511	130	846	8369	6716	15085
OCTOBER	984	1701	4792	130	778	8383	6471	14854
NOVEMBER	919	1595	5102	130	711	8397	6195	14592
DECEMBER	857	1415	5369	130	645	8411	6355	14766
JANUARY	795	1274	5631	130	579	8409	5826	14234
FEBRUARY	733	1135	5898	130	513	8407	5612	14019
MARCH	673	993	6162	130	446	8405	5717	14122
APRIL	613	852	6429	130	380	8404	5747	14151
MAY	552	710	6697	130	314	8403	5900	14304
JUNE	492	569	6970	130	248	8403	6762	15164
JULY	429	426	7247	130	181	8403	6599	15001
AUGUST	365	283	7527	130	115	8403	6657	15060
SEPT	302	113	7809	130	49	8403	6612	15016
OCTOBER	0	0	8274	130	0	8404	5908	14312
NOVEMBER	0	0	8274	130	0	8404	5657	14062
DECEMBER	0	0	8277	130	0	8407	5809	14216

TABLE 11
REFINER ACQUISITION COST ESTIMATES WITH CRUDE OIL DECONTROL

MONTH	LOWER TIER	UPPER TIER	MARKET PRICED OIL	NAVAL PETRO RESERVE	ALASKA NORTH SLOPE	TOTAL DOMESTIC OIL	IMPORTED OIL	TOTAL UNCONTR. OIL	AVERAGE REFINER COST
JAN80	7.00	14.58	32.38	32.53	22.98	19.68	31.63	30.69	29.01
FEB80	7.05	14.62	34.05	34.25	23.16	20.02	33.35	32.31	26.50
MAR80	7.11	14.73	34.06	34.26	23.21	21.49	33.36	32.36	26.94
APR80	7.16	14.85	34.68	34.88	23.33	22.54	33.98	32.98	27.22
MAY80	7.22	14.97	34.82	34.22	23.45	23.80	35.32	34.34	28.69
JUN80	7.27	15.19	35.25	35.45	23.57	24.17	24.95	33.78	28.72
JUL80	7.33	15.21	35.29	35.49	23.69	24.90	34.59	33.93	29.22
AUG80	7.39	15.33	35.99	36.19	23.81	25.99	35.29	34.68	30.15
SEP80	7.44	15.45	36.30	36.50	23.93	26.87	35.60	35.06	30.75
OCT80	7.50	15.58	36.61	36.81	24.06	27.77	35.91	35.43	31.31
NOV80	7.56	15.70	36.92	37.12	24.18	28.78	36.22	35.82	31.89
DEC80	7.62	15.83	37.24	37.44	24.31	29.63	36.54	36.21	32.60
JAN81	7.67	15.94	37.52	37.72	24.42	30.53	36.82	36.57	33.11
FEB81	7.72	16.05	37.82	38.02	24.53	31.45	37.12	36.94	33.72
MAR81	7.77	16.16	38.11	38.31	24.64	32.38	37.41	37.31	34.42
APR81	7.83	16.28	38.41	38.61	24.76	33.32	37.71	37.69	35.10
MAY81	7.88	16.39	38.71	38.91	24.87	34.29	38.01	38.06	35.82
JUN81	7.93	16.51	39.01	39.21	24.99	35.28	38.31	38.43	36.63
JUL81	7.99	16.62	39.32	39.52	25.10	36.30	38.62	38.81	37.32
AUG81	8.04	16.74	39.63	39.83	25.22	37.34	38.93	39.19	38.04
SEP81	8.10	16.86	39.94	40.14	25.34	38.40	39.24	39.58	38.77
OCT81	8.15	16.98	40.26	40.46	25.46	40.26	39.56	39.97	39.97
NOV81	8.21	17.10	40.58	40.78	25.58	40.58	39.88	40.30	40.30
DEC81	8.26	17.22	40.90	41.10	25.70	40.90	40.20	40.61	40.61

TABLE 12
MARGINAL WELL / OPCL ADJUSTMENT VOLUMES

MONTH	MAR.WELL OPCL VOLUMES	ADJUSTED L. TIER VOLUMES	ADJUSTED U. TIER VOLUMES	MONTH	MAR.WELL OPCL VOLUMES	ADJUSTED L. TIER VOLUMES	ADJUSTED U. TIER VOLUMES
JAN80	760	1957	3405	JAN81	1285	974	4001
FEB80	820	1896	3430	FEB81	1329	904	4041
MAR80	860	1934	3457	MAR81	1374	835	4080
APR80	901	1595	3664	APR81	1419	765	4120
MAY80	942	1526	3700	MAY81	1465	695	4161
JUN80	984	1454	3737	JUN81	1511	625	4202
JUL80	1026	1589	3773	JUL81	1557	555	4243
AUG80	1068	1321	3810	AUG81	1604	485	4285
SEP80	1110	1251	3848	SEP81	1651	415	4327
OCT80	1153	1182	3885	OCT81	0	0	0
NOV80	1197	1113	3924	NOV81	0	0	0
DEC80	1241	1043	3962	DEC81	0	0	0

TABLE 13
MARGINAL WELL / BPCL ADJUSTMENT IMPACTS

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN80	23.75	24.56	.81	.7	145.1	145.1
FEB80	24.92	25.24	.32	.8	143.9	288.9
MAR80	24.60	24.96	.36	.9	162.7	451.6
APR80	24.71	25.20	.49	1.2	207.8	659.4
MAY80	25.78	26.28	.50	1.2	236.4	895.8
JUN80	25.67	26.19	.52	1.2	220.6	1116.4
JUL80	25.90	26.44	.54	1.3	250.5	1367.0
AUG80	26.04	27.10	.56	1.3	263.8	1630.8
SEP80	26.69	27.20	.99	1.4	266.9	1896.8
OCT80	26.83	27.46	.63	1.5	288.8	2185.6
NOV80	26.95	27.62	.67	1.6	292.4	2478.0
DEC80	27.34	28.03	.69	1.6	315.8	2793.8
JAN81	27.26	28.08	.73	1.8	329.4	3123.1
FEB81	27.37	28.16	.79	1.9	310.0	3433.2
MAR81	27.71	28.52	.82	1.9	357.4	3790.6
APR81	28.80	29.84	.85	2.0	359.9	4150.4
MAY81	28.37	29.24	.87	2.1	386.6	4537.0
JUN81	29.19	30.04	.85	2.0	388.7	4925.7
JUL81	29.37	30.26	.90	2.1	417.0	5302.7
AUG81	29.68	30.61	.93	2.2	432.6	5775.3
SEP81	29.94	30.90	.96	2.3	434.1	6209.4
OCT81	30.46	30.46	.00	.0	.0	.0
NOV81	30.74	30.74	.00	.0	.0	.0
DEC81	30.85	30.85	.00	.0	.0	.0

TABLE 14
NEWLY DISCOVERED RULE VOLUMES

MONTH	NEWLY DISCOV. OIL	INCREM. NEW OIL	ADJUSTED U. TIER VOLUMES	ADJUSTED MARKET VOLUMES	MONTH	NEWLY DISCOV. OIL	INCREM. NEW OIL	ADJUSTED U. TIER VOLUMES	ADJUSTED MARKET VOLUMES
JAN80	269	13	3136	1882	JAN01	530	82	3471	2304
FEB80	291	15	3138	1917	FEB81	552	45	3489	2340
MAR80	313	17	3143	1951	MAR81	573	47	3507	2375
APR80	335	19	3329	1986	APR81	594	50	3526	2411
MAY80	357	21	3343	2022	MAY81	615	53	3546	2446
JUN80	379	24	3357	2057	JUN81	636	56	3566	2482
JUL80	401	26	3372	2092	JUL81	657	58	3586	2517
AUG80	423	29	3387	2127	AUG81	678	61	3607	2553
SEP80	445	31	3403	2163	SEP81	698	64	3629	2588
OCT80	466	34	3419	2198	OCT81	0	67	0	6418
NOV80	488	36	3436	2233	NOV81	0	69	0	6606
DEC80	509	39	3453	2269	DEC81	0	72	0	6993

TABLE 15
NEWLY DISCOVERED RULE IMPACTS

MONTH	BASE DEFINED COST	ADJUSTED DEFINED COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN80	24.06	24.38	.32	.0	149.8	149.8
FEB80	25.24	25.61	.37	.0	164.0	313.9
MAR80	24.96	25.37	.41	1.0	188.1	501.6
APR80	25.20	25.67	.47	1.1	199.9	701.5
MAY80	26.26	26.80	.52	1.2	233.7	935.2
JUN80	26.19	26.78	.58	1.3	229.9	1165.1
JUL80	26.66	26.98	.56	1.3	250.2	1415.3
AUG80	27.60	27.96	.56	1.4	271.4	1686.7
SEP80	27.20	27.90	.62	1.5	278.6	1965.3
OCT80	27.96	28.12	.66	1.6	304.6	2269.9
NOV80	27.62	28.33	.71	1.7	311.1	2581.0
DEC80	28.03	28.77	.74	1.8	338.7	2919.7
JAN81	28.68	28.81	.81	1.9	355.8	3275.5
FEB81	28.16	29.32	.86	2.2	337.1	3612.7
MAR81	28.52	29.42	.89	2.1	390.8	4003.5
APR81	28.86	29.77	.93	2.2	395.5	4399.0
MAY81	29.24	33.20	.96	2.3	426.7	4825.7
JUN81	28.69	30.99	.98	2.3	438.6	5256.3
JUL81	30.26	31.26	1.00	2.4	463.4	5719.7
AUG81	30.61	31.64	1.03	2.5	482.1	6201.8
SEP81	32.90	31.90	1.00	2.6	484.9	6686.7
OCT81	30.46	30.47	.00	.0	.0	.0
NOV81	30.76	30.76	.00	.0	.0	.0
DEC81	29.65	29.36	.00	.0	.0	.0

TABLE 16
HEAVY OIL DECONTROL VOLUMES

MONTH	L. TIER HEAVY OIL	U. TIER HEAVY OIL	INCREM. HEAVY OIL	ADJUSTED L. TIER VOLUMES	ADJUSTED U. TIER VOLUMES	ADJUSTED MARKET VOLUMES
JAN80	139	105	0	1810	2969	2185
FEB80	132	171	0	1764	2967	2220
MAR80	126	174	0	1713	2966	2295
APR80	120	184	0	1675	3105	2299
MAY80	113	193	0	1613	3153	2329
JUN80	107	198	0	1550	3161	2360
JUL80	101	203	21	1260	3169	2417
AUG80	95	209	42	1225	3178	2475
SEP80	89	215	63	1162	3188	2529
OCT80	83	221	84	1100	3198	2585
NOV80	76	228	105	1037	3208	2642
DEC80	69	234	126	976	3219	2698
JAN81	63	241	139	911	3230	2763
FEB81	57	247	144	847	3242	2787
MAR81	52	253	153	784	3254	2832
APR81	44	259	162	721	3267	2875
MAY81	38	266	171	657	3280	2921
JUN81	32	272	180	594	3294	2965
JUL81	25	279	189	530	3308	3010
AUG81	19	285	198	466	3322	3054
SEP81	13	291	207	402	3338	3099
OCT81	0	2	216	0	0	6834
NOV81	0	5	225	0	0	6831
DEC81	0	3	234	0	0	6827

TABLE 17
HEAVY OIL DECONTROL IMPACTS

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULTV. COST
JAN80	24.38	24.88	.42	1.0	200.1	200.1
FEB80	24.81	25.26	.45	1.1	208.2	408.3
MAR80	25.37	25.40	.47	1.1	211.8	612.1
APR80	25.67	26.16	.49	1.2	208.3	820.4
MAY80	26.81	27.30	.50	1.2	225.5	1045.9
JUN80	26.70	27.17	.47	1.1	208.0	1254.6
JUL80	26.98	27.46	.48	1.1	214.1	1468.8
AUG80	27.58	28.15	.57	1.4	238.7	1687.5
SEP80	27.90	28.37	.47	1.1	212.4	1899.9
OCT80	28.12	28.60	.48	1.1	220.3	2120.3
NOV80	28.33	28.82	.49	1.2	214.0	2334.3
DEC80	28.77	29.25	.48	1.2	221.9	2556.2
JAN81	28.81	29.31	.50	1.2	222.3	2778.5
FEB81	28.82	29.33	.51	1.2	201.2	2979.7
MAR81	29.42	29.93	.51	1.2	223.1	3202.9
APR81	29.77	30.28	.51	1.2	216.2	3419.0
MAY81	30.20	30.71	.50	1.2	223.8	3642.8
JUN81	30.99	31.47	.48	1.1	217.0	3859.8
JUL81	31.26	31.74	.48	1.1	224.8	4084.3
AUG81	31.68	32.12	.44	1.1	224.9	4309.2
SEP81	31.98	32.46	.48	1.2	218.0	4527.2
OCT81	28.47	28.48	.01	.0	.0	.0
NOV81	28.74	28.75	.01	.0	.0	.0
DEC81	29.06	29.17	.01	.0	.0	.0

TABLE 18
TERTIARY SALES VOLUMES

MONTH	L. TIER TERTIARY OIL	U. TIER TERTIARY OIL	INCREM. TERTIARY OIL	ADJUSTED L. TIER VOLUMES	ADJUSTED U. TIER VOLUMES	ADJUSTED MARKET VOLUMES
JAN80	1	3	0	1917	2767	2188
FEB80	2	4	0	1767	2953	2226
MAR80	4	4	0	1784	2958	2267
APR80	7	14	0	1464	3129	2311
MAY80	10	24	0	1403	3129	2359
JUN80	13	32	0	1337	3129	2401
JUL80	16	41	0	1272	3129	2473
AUG80	19	52	19	1207	3129	2551
SEP80	17	54	22	1145	3130	2616
OCT80	16	50	33	1084	3148	2682
NOV80	15	51	43	1019	3148	2760
DEC80	17	53	58	957	3159	2825
JAN81	15	51	55	895	3179	2874
FEB81	14	48	48	833	3182	2921
MAR81	11	58	65	773	3184	2958
APR81	8	67	72	713	3227	2994
MAY81	5	71	75	652	3255	3025
JUN81	2	15	80	592	3279	3062
JUL81	1	10	85	534	3298	3106
AUG81	1	9	91	465	3317	3150
SEP81	0	2	95	402	3336	3194
OCT81	0	0	183	0	0	4934
NOV81	0	0	185	0	0	4936
DEC81	0	0	118	0	0	4937

TABLE 19
TERTIARY RULES IMPACTS

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN80	26.81	26.90	.09	.0	1.9	1.9
FEB80	26.84	26.76	.01	.0	1.8	3.7
MAR80	25.84	25.45	.02	.0	4.1	13.8
APR80	26.16	26.28	.04	.1	15.3	29.1
MAY80	27.30	27.36	.05	.1	24.6	53.7
JUN80	27.17	27.24	.07	.2	30.3	84.0
JUL80	27.44	27.52	.08	.2	38.8	122.8
AUG80	28.05	28.15	.10	.2	48.2	171.0
SEP80	28.37	28.47	.10	.2	46.4	217.4
OCT80	28.68	28.78	.10	.2	47.7	265.0
NOV80	28.82	28.94	.13	.3	54.9	319.9
DEC80	28.25	28.38	.13	.3	56.5	376.4
JAN81	29.31	29.44	.13	.3	56.2	432.6
FEB81	29.53	29.66	.13	.3	49.5	482.1
MAR81	29.93	30.03	.10	.2	45.8	527.9
APR81	30.28	30.37	.08	.2	35.4	563.3
MAY81	30.71	30.76	.05	.1	23.7	587.0
JUN81	31.47	31.50	.03	.1	13.7	600.6
JUL81	31.76	31.76	.02	.1	9.9	610.5
AUG81	32.12	32.10	.01	.0	6.5	617.0
SEP81	32.46	32.46	.00	.0	2.0	619.0
OCT81	32.48	32.48	.00	.0	.0	.0
NOV81	32.75	32.75	.01	.0	.0	.0
DEC81	33.07	33.07	.01	.0	.0	.0

TABLE 20
UPPER TIER DECONTROL VOLUMES

MONTH	U. TIER VOLUMES DECNTRLD	ANS VOLUMES DECNTRLD	ADJUSTED U. TIER VOLUMES	ADJUSTED ANS VOLUMES	ADJUSTED MARKET VOLUMES	MONTH	U. TIER VOLUMES DECNTRLD	ANS VOLUMES DECNTRLD	ADJUSTED U. TIER VOLUMES	ADJUSTED ANS VOLUMES	ADJUSTED MARKET VOLUMES
JAN80	136	64	2930	1376	2991	JAN81	1896	861	1276	579	3631
FEB80	273	132	2691	1304	3631	FEB81	2049	927	1133	513	3698
MAR80	488	199	2550	1241	2974	MAR81	2211	994	993	446	6162
APR80	576	265	2553	1175	3154	APR81	2375	1060	852	380	6429
MAY80	720	331	2609	1169	3410	MAY81	2545	1126	710	314	6697
JUN80	864	397	2265	1043	3646	JUN81	2715	1192	564	248	6970
JUL80	1008	464	2122	976	3946	JUL81	2882	1259	416	181	7247
AUG80	1151	53'	1977	910	4232	AUG81	3052	1325	265	115	7527
SEP80	1299	596	1839	844	4511	SEP81	3224	1391	113	49	7809
OCT80	1440	662	1700	778	4792	OCT81	0	1440	0	0	8374
NOV80	1593	729	1555	711	5082	NOV81	0	1440	0	0	8376
DEC80	1744	795	1415	645	5364	DEC81	0	1440	0	0	8377

TABLE 21
UPPER TIER DECONTROL IMPACTS

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN80	24.80	25.01	.20	.5	94.7	94.7
FEB80	24.86	26.48	.46	1.0	195.7	290.4
MAR80	25.85	26.94	.68	1.6	311.4	601.7
APR80	24.20	27.22	1.02	2.4	432.6	1034.4
MAY80	27.36	28.69	1.33	3.2	598.8	1633.2
JUN80	27.84	29.72	1.48	3.5	661.5	2294.7
JUL80	27.92	29.22	1.70	4.0	793.9	3088.5
AUG80	28.15	30.15	2.00	4.8	937.4	4025.9
SEP80	28.47	30.75	2.28	5.4	1033.4	5059.3
OCT80	28.78	31.91	2.61	6.2	1201.6	6260.9
NOV80	28.94	31.49	2.93	7.0	1292.4	7553.2
DEC80	29.38	32.60	3.22	7.7	1475.8	9029.0
JAN81	29.44	33.11	3.67	8.7	1618.4	10647.4
FEB81	29.66	33.72	4.06	9.7	1593.8	12241.3
MAR81	30.03	34.42	4.38	10.4	1919.1	14160.4
APR81	30.37	35.10	4.74	11.3	2010.9	16171.3
MAY81	30.76	35.82	5.06	12.1	2294.1	18465.4
JUN81	31.50	36.63	5.13	12.2	2330.6	20796.0
JUL81	31.76	37.32	5.55	13.2	2502.5	23332.5
AUG81	32.14	38.04	5.91	14.1	2757.1	26089.6
SEP81	32.46	38.77	6.31	15.0	2841.8	28931.4
OCT81	38.68	39.97	1.49	3.5	.0	.0
NOV81	38.76	41.30	1.54	3.7	.0	.0
DEC81	39.87	40.61	1.54	3.7	.0	.0

TABLE 22
TOTAL IMPACT OF CRUDE OIL RULES

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	DIFFERENCE	CENTS PER GALLON	MONTHLY COSTS $MILLION	TOTAL CUMULAT. COST
JAN80	23.75	25.01	1.25	3.0	590.4	591.0
FEB80	24.97	26.48	1.50	3.6	708.0	1298.8
MAR80	24.60	26.94	1.94	4.6	892.1	2190.9
APR80	24.71	27.22	2.51	6.0	1063.9	3254.8
MAY80	25.78	28.69	2.91	6.9	1309.0	4563.8
JUN80	25.67	29.72	3.05	7.3	1361.0	5914.8
JUL80	25.90	29.22	3.32	7.9	1547.5	7462.3
AUG80	26.44	30.15	3.71	8.8	1738.7	9201.0
SEP80	26.69	32.75	4.06	9.7	1837.7	11038.7
OCT80	26.83	31.91	4.48	10.7	2063.0	13101.7
NOV80	26.95	31.89	4.95	11.8	2164.8	15266.4
DEC80	27.34	32.60	5.26	12.5	2408.7	17675.1
JAN81	27.26	33.11	5.85	13.9	2582.1	20257.2
FEB81	27.37	33.72	6.35	15.1	2491.7	22748.9
MAR81	27.71	34.42	6.71	16.0	2936.2	25685.1
APR81	28.03	35.10	7.11	16.9	3017.9	28703.0
MAY81	28.37	35.82	7.45	17.7	3304.9	32007.9
JUN81	29.19	36.63	7.44	17.7	3384.5	35392.4
JUL81	29.37	37.32	7.95	18.9	3697.3	39089.7
AUG81	29.68	38.04	8.36	19.9	3903.3	42993.0
SEP81	29.94	38.77	8.84	21.0	3980.8	46973.8
OCT81	38.46	39.97	1.51	3.6	.0	.0
NOV81	38.74	41.30	1.56	3.7	.0	.0
DEC81	39.85	40.61	1.56	3.7	.0	.0

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TABLE 23
ESTIMATED IMPACT OF CRUDE OIL PHASED DECONTROL ON RETAIL PRICES

MONTH	BASE REFINER COST	ADJUSTED REFINER COST	BASE GASOLINE PRICE	ADJUSTED GASOLINE PRICE	IMPACT ON GASOLINE	BASE NO 2 OIL PRICE	ADJUSTED NO 2 OIL PRICE	IMPACT ON NO 2 OIL
JAN81	23.75	25.75	118.8	120.8	.0	92.1	92.1	.0
FEB81	24.92	26.58	119.9	121.5	.0	92.1	92.1	.0
MAR81	24.60	26.56	116.9	118.1	.0	92.1	92.1	.0
APR81	24.71	27.22	119.3	121.8	.0	91.3	96.3	.0
MAY81	25.78	28.69	121.8	124.5	.0	95.9	101.2	.0
JUN81	25.67	28.72	119.9	123.4	.0	95.9	100.9	.0
JUL81	25.90	29.22	121.0	125.0	.0	94.3	102.6	.0
AUG81	26.44	30.15	121.7	125.3	.0	97.1	106.7	.0
SEP81	26.69	30.75	122.9	126.3	.0	98.9	109.9	.0
OCT81	26.83	31.31	124.4	129.1	.0	98.9	107.8	.0
NOV81	26.95	31.89	123.6	128.5	.0	97.8	109.9	.0
DEC81	27.34	32.60	123.8	129.2	.0	98.9	112.2	.0
JAN82	27.26	33.11	123.7	129.8	16.2	100.1	116.9	16.8
FEB82	27.37	33.72	123.7	130.9	17.2	101.4	117.9	16.5
MAR82	27.71	34.42	125.1	132.8	17.7	103.7	121.4	17.6
APR82	28.03	35.19	127.8	136.3	21.1	105.8	125.9	19.6
MAY82	28.37	35.82	129.8	139.3	22.5	106.6	126.2	21.3
JUN82	29.19	36.63	130.6	140.0	20.2	106.3	126.3	20.4
JUL82	29.37	37.32	133.6	143.3	20.7	106.3	129.9	23.5
AUG82	29.37	37.32	137.7	145.3	20.7	106.6	131.2	24.8
SEP82	29.68	38.76	138.6	146.9	27.3	108.6	132.9	24.3
OCT82	29.94	38.77	139.3	147.7	26.5	108.6	134.5	25.9
NOV82	30.46	39.97	139.1	148.7	29.7	109.5	136.8	27.3
DEC82	30.74	40.30	165.9	170.9	5.0	110.7	139.7	29.0
JAN83	31.05	40.61	165.9	170.5	5.1	135.7	140.7	5.0
						101.9	107.1	5.2

[Whereupon, at 11 a.m., the subcommittee adjourned.]

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